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Shall We Buy War Loans?

Foreign War Loans and The Investor

By PAUL CLAY and CHARLES F. SPEARE

The nations at war have a natural desire to sell us their bonds, not only because of their urgent need for funds, but also in order to steady the foreign exchange market. The question of the desirability of such bonds as investments is one that each investor will, of course, have to settle for himself. The war has brought unprecedented conditions and it may have unprecedented results.

We present here the views of two men who have given the results of the war much study—Paul Clay and Charles F. Speare. As might be expected, they do not agree in all particulars, but the reasons they advance for their respective opinions are of much interest.—*The Editor.*

By CHARLES F. SPEARE

THE foreign loans made by the United States since the war amount to about $300,000,000. A large percentage represents municipal and provincial loans to Canada, whose market for funds was cut off when London determined to retain her capital supplies for fighting purposes. Large credits have, however, been placed for France, Argentine, Russia, Germany, Norway and Switzerland.

There is all the time strong pressure on the part of Europe to influence American bankers in the way of bringing out loans here in favor of some one of the foreign nations and considerable irritation over the fact that so little response is given to the suggestion. Foreign bankers take the view that American investors ought to see the value in the bonds of England, France and Germany, now selling on a basis of between 4½ and 5¼ per cent. But to the suggestion that England offer her latest 4½ per cent. loan here tax free, in order to attract American capital, English bankers turned a cold shoulder, and so far the whole subject of granting credit through investment as an offset to the debt which England owes the United States, has come to naught.

The question may readily be asked

why American investors want to buy English 4½ per cent. bonds at a time when the national debt of Great Britain is doubling and trebling, or the bonds of any one of the continental countries whose resources, though tremendous, are steadily receding to a dangerous point, when they can buy back their own securities from Europe on a basis of yield fully ¼ per cent higher than the British loan and at a time when the properties covered by these mortgages are steadily appreciating in value.

Investors in this country are rather provincial. It takes a great deal to get them interested in over-seas investments. They bought liberally of the Japanese 4½ per cent. in 1905, but within a year had sold them all out either to London or Berlin. Mexican bonds and Cuban bonds have been taken when they were offered at attractive figures, but when the finances of those Republics were on a sound basis. In late years the issues of Argentina have been rather popular, though more with institutions than with individuals. The only real success that has attended European offerings since the war is that shown to bonds of such neutral countries as Switzerland, Norway and Sweden.

There is one argument that American investors should not lend their aid to proongation of the war by helping to finance it as they do when they buy foreign war loans. From a business standpoint, however, the whole subject simmers down to two factors, viz: are the returns on these foreign bonds any better than returns on American bonds now offering, and are the countries at war who are asking support from American investors going to be able to pay their debts when the war, which has already cost a tremendous sum and is progressively expensive, ends?

Writing in the *Evening Mail* recently on the subject of "Some After Effects of the War," I said:

"It was as much from an inability to foresee and to cope with economic problems growing out of the war as from a fear that war might develop between the United States and Germany that business lacked initiative and snap. This thought is even stronger to-day. One simply cannot begin to understand or to deal with a situation which, at a rapidly increasing rate, is bringing exhaustion, both financial and physical, to the countries at war. Our own problems are also difficult to solve.

"From a larger viewpoint there is to be taken into account the effect of an exhausting war on all of the great powers of Europe. How far will any of them, Great Britain included, be able to remain on a gold basis if peace is not declared before next summer? A significant item comes from Berlin this week in which it is stated that German bankers have called on the Kaiser to end the war because of the inevitable bankruptcy of the empire if the fight is continued. The British loan had no sooner been closed and $3,000,000,000 added to the national debt before Parliament asked authority to vote a new loan of $1,250,000,000, which will increase the British debt to approximately $10,000,000, compared with $3,500,000,000 at the end of March, 1914. France is asking for $1,400,000,000 more, after having already borrowed $1,800,000,000 inside of a year. If these strongest of all European countries are so hard put, what must be the condition of Austrian and Russian finances or the actual value of the currencies of southeastern Europe?

Meanwhile the United States continues to accept the I. O. U.'s of Europe for the balance of the debt not paid in gold or in securities. It is not an entirely fanciful idea that debt repudiation in Europe will follow the closing of the war.

It has occurred after struggles much less devastating than the present one, and there is a strong enough socialistic trend today to produce demands similar to those made by the people of France after some of their great conflicts.

By PAUL CLAY

LOANS by the people of the United States to foreign governments since the beginning of the war have been piling up in such a way as to give rise to a number of important questions.

Two of the principal questions raised by this situation are first, the effect of this borrowing upon the political and industrial future of the United States; and second, the quality or investment standing of the government notes and bonds which the American public is putting its money into. Should any grave danger of war with Germany arise, it would then of course be a matter of patriotism to use our investment funds to finance our own conflict rather than that of other nations.

On the industrial side there is more to be said; for it is clearly discernible that it will pay better in the end to put our investment funds into financing our export trade rather than into Canadian municipals, or foreign government bonds or notes. These securities mean nothing to us over and above the income received upon them, but the financing of our export trade is an important matter to the entire nation. It is this trade which lies at the very foundation of our present prosperity, and which is bound to do so until the end of the war. No one need close his eyes to the evident fact that domestic business in a large number of our industries including railroading, some branches of mining, cotton raising, building, lumber, petroleum production and steel, has been bad or poor ever since the war began. Some of these industries have picked up, but not on domestic business. The improvement has come from export business.

Thus it has been in every great war. The normal occupations of the people are so disturbed that even neutral nations would be exceedingly unprosperous but for export business based upon war orders for munitions and supplies. At this season of the year we ordinarily look at the crops as the measure of our coming prosperity, but now we must look at war orders and export figures instead. In short, the investor who buys the bond or note of a company which is building or enlarging plants to produce goods for export is not only obtaining the desired income, but is also contributing to the prosperity of the entire people of the United States.

These are peculiar conditions. We want and must have the big export trade, but in order to get it we shall be obliged to a large extent to loan foreign governments the money with which to pay for the goods. Americans have not been accustomed to doing business in this manner; but still it is a perfectly sound business method, and is the essential method by which England and Germany in recent years have developed their enormous trade in South America, Africa and Asia to the partial exclusion of American goods. By this method two birds are killed with one stone, since the lending country not only obtains the income on the loan but it also obtains substantial profits on the exported goods. In brief, foreign loans which directly contribute to the enlargement of our export trade promote the industrial welfare of the nation, while those which do not so contribute may be regarded with a certain amount of disfavor under existing circumstances.

The disfavor is based largely upon the doubts as to the intrinsic values of foreign government securities, and these doubts are the inevitable consequence of the astonishing increases in the debts of the warring nations. How these debts are growing may be seen from the estimates on the following page.

There is a considerable portion of these war loans which will not be a direct addition to the permanent public debts. Many of the loans are temporary, and will be at least in part paid off out of current receipts. Perhaps 25 to 33 per cent. of the total cost of the war, if it does not last too long, may be paid by means of increased taxation and the like, rather than with borrowed funds. At the same time judging from the existing military situation it seems folly to suppose that the war is more than half over, or that its cost is more than half paid. Neither side has suffered any decisive defeat and neither has lost a single army. In our Civil war the South suffered the first decisive defeat in the siege of Vicksburg, and yet the war continued for months thereafter.

We make no pretence of being able to estimate how long this war will last, but it is surely a conservative assumption that before it is over the present war loans will be at least doubled. This

would rise them to more than $31,000,000,000. Furthermore upon the conservative estimate that one-third of this amount will be paid out of current taxes and receipts, and only two-thirds added to the permanent public debts—the addition to these debts would still total nearly $21,000,000,000. It may well be believed, then, that these seven nations at the end of the war will have an aggregate public debt of $47,600,000,000 or more in place of the $26,886,600,000 as of 1914 before the war.

The mere hugeness of these debts fails to throw light upon the investment quality of foreign government bonds, or upon the possibility of default; for the indebtedness needs to be compared with the resources or earnings of the various nations. Hence the statistical records of the various countries have been examined to discover as nearly as can be estimated the approximate gross income of each of the seven nations or peoples.

By comparing these total yearly incomes with the totals given in the first table, one may obtain some idea as to the ability of the various governments to pay their debts and make their bonds and notes good. Of the seven nations Germany appears to have the largest reserve of borrowing power. The sum of her 1914 debt and her war loans is only $8,610,000,000, whereas the gross yearly income of her people is estimated at $13,072,000,000. On the other hand the French debt, plus war loans, lacks only $700,000,000 of already equaling the gross income of the people. Italy has practically no margin left, and Russia not so wide a margin as Germany.

It is clearly evident that after the war the public debts of all these countries are likely to substantially exceed the gross yearly incomes of their peoples. If the war should run about a year longer the treaty of peace would probably find the government of the United Kingdom in debt to the extent of more than $11,000,000,000, whereas the income of the people without making any allowances for war losses is now estimated at $10,879,600,000. Even Germany will probably have an indebtedness exceeding one year's income of her population; for she is already so heavily taxed that a high proportion of the entire additional cost of the war will be a direct addition to her permanent public debt.

These figures in themselves do not fully disclose the position of the various government securities because there are so many other important considerations. England, for example, has been able to keep her industries going with the result that her people can bear heavy additional taxes, whereas German foreign commerce has been so nearly destroyed by the war as to reduce the gross income of the entire German people by 18 to 28 per cent. As to Italy, Russia, Austria and Turkey the cost of the necessities of life so nearly consumes the entire yearly income of the people that any addition to taxation tends to throttle trade and production. Such is not the case in England, France or Germany. In these three countries the people spend probably 10 to 30 per cent. of their yearly incomes for purposes other than food,

Extent of Foreign Government Indebtedness

	Government debts, 1914	War loans to July, 1915	Total of two items
United Kingdom	$3,486,000,000	$5,655,500,000	$9,141,500,000
France	6,350,000,000	1,790,000,000	8,140,000,000
Italy	2,722,000,000	200,000,000	2,922,000,000
Russia	4,665,000,000	2,630,500,000	7,295,500,000
	$17,223,000,000	$10,276,000,000	$27,499,000,000
Germany	$5,220,000,000	$3,390,000,000	$8,610,000,000
Austria	3,873,600,000	1,630,000,000	5,503,600,000
Turkey	750,000,000	250,000,000	820,000,000
	$9,663,600,000	$5,270,000,000	$14,933,600,000
Grand totals	$26,886,600,000	$15,546,000,000	$42,432,600,000

clothing, shelter and the positive necessities of life.

Still, one should not lose sight of the fact that a nation can stand a war debt substantially in excess of the total income of all its people without leading to any default of interest or even seriously injuring its credit. The Civil War cost the North about $3,158,000,000, and on July 1, 1866 the debt of the United States government including only that portion which bore interest was $2,332,331,208. Meanwhile, the total income of the American people, both North and South, the year before the war was about $2,500,000,000. The year after the war it probably did not much exceed $2,000,000,000, and in gold it was probably not more than $1,500,000,000. Yet this huge debt was taken care of, and the investment position of the United States bonds grew stronger and stronger.

The investment position of foreign governments has been greatly injured. British consuls since July 1914 have fallen 7½ points, French rentes 9⅜, Italian rentes 20¼, Russian 4½s 9¼, Austrian rentes 22⅜, German 3s. 25½, Hungarian 4½s 26 points, Prussian 3s. 24 and Turkish 4s 22 points. The quotations for the majority of these securities were obtained from London, and it is quite possible that the Austrian, German, Prussian and Turkish securities may not have declined as much as this in their own home markets.

Probably the large majority of these foreign government securities will recover after the war is over. It is quite usual at such times as the present for government bonds to rise or fall in accordance with military uncertainties. The government securities of England, France and Germany look safe, however the war may end, and those of Russia appear almost equally safe. Russian bonds, however, are not really high grade because the people are so poor and taxation so heavy even in times of peace. The securities most threatened are those of Austria and Turkey, with Italy third.

Estimated Income

	Gross national income	Total population	Income per capita
United Kingdom	$10,879,600,000	46,100,000	$236
France	8,840,000,000	40,000,000	221
Italy	3,034,500,000	35,700,000	35
Russia	9,975,000,000	175,000,000	57
Germany	13,072,000,000	68,800,000	190
Austria	6,500,000,000	50,000,000	130
Turkey	1,003,500,000	22,300,000	45

Thieves of Knowledge

I BELIEVE in monthly, or even more frequent, reports to stockholders.

My opinion is based on the fact that they are *partners* in the enterprise and no partner should conceal the facts from his fellow partners, except so far as demanded by the best interests of the company.

Furthermore, the facts should be given to stockholders when they are definitely known to the management.

A certain large railroad system publishes its earnings about the first of each month; the June figures appear early in August, and so on throughout the year. The June figures are known to the officials during the last week in June, but the other partners have to wait five weeks for this information. Ten point movements in the stock often occur during this interval.

Concealing this knowledge constitutes, in my opinion, a form of theft; for theft is appropriating to one's own purposes, money, goods (or information) that belongs to one's partners.

The size of one's holdings should make no difference. The banker in the management should not exploit his partners whether they hold a thousand shares or one share.

Stockholders should be *promptly* informed of developments affecting their company's earning power or prospects.

RICHARD D. WYCKOFF.

Latin American Investment Opportunities

Representative Rails and Tractions and Their Markets.

By FREDERIC M. HALSEY, Author "The Railways of So. & Central America"

LATIN AMERICA is a golden field for legitimate investments. Although a majority of the twenty-one republics south of the United States were explored and settled at a date prior to the landing of John Smith at Jamestown, geographical, financial and other reasons have prevented these republics from keeping pace with our country. The millions of immigrants who sought our shores furnishing us with labor, and the great inflow of gold invested by the creditor nations of Europe in our railroads and industries, enabled us to develop our enormous resources and take our place in the front rank of nations. Thus we outpaced our Latin neighbors and practically forgot their existence.

Europe, though it expended billions financing our needs, had still more funds in its purse. Some of these funds were diverted to Africa, Southern Europe, India and the Far East; likewise large amounts were invested in Latin America. Here was a great field, and two of the nations—Great Britain and France—were not slow to grasp the opportunities which awaited them. British capitalists took over most of the tiny straggling, half-built railways scattered here and there throughout South America, financed and extended them and made them into large profitable systems. By means of British capital tramway lines, power plants and comprehensive water systems were constructed in the various cities; companies were formed to develop agricultural areas, and mines and industries were exploited.

All told, great Britain's investments in Latin American securities have exceeded five billions of dollars. Two billion dollars of this amount have been invested in Argentina, including a billion in its railways; one billion or more in Brazil, and about one-half of this latter amount in Chile. France has likewise put large amounts into Latin American enterprises, particularly into Brazilian railways, several of which were constructed by means of capital furnished by Parisian bankers. Most of the French investments in Latin America have been successful—an exception being the ill-fated de Lesseps' Panama Canal Company, in which enterprise a great many millions of francs were irretrievably lost.

What of our own investments in this great field? In Mexico, Cuba and Porto Rico, Central America and Panama, American investments have been fairly large. Our mining, smelting and oil interests in Mexico are considerable, while the great United Fruit Company, an enterprise of which we are duly proud, is a great factor in the development of Central America and the West Indies. In Panama we have interests. The Panama railroad, which Messrs. Stephens, Chauncey, Trautwine, and their associates—all Americans—laid across the Isthmus at a cost of several millions of dollars and many hundreds of lives, now a Government enterprise and for many years immensely profitable, has been practically superseded by the Great Canal just completed.

South of Panama our interests are few and far between. Although Meiggs, Thorndyke, Wheelwright, Col. Church and other Yankee engineers were the pioneer railway builders of the west coast of South America, practically none of the companies operating the lines which they built has any

American stockholders. Meiggs made his name famous through the construction of the Oroya or Peruvian Central Railway, the highest and most wonderful line in the world, surmounting within a distance of less than 200 miles an altitude of 15,865 feet. This railway bankrupted the Peru of the Nineteenth Century, but inasmuch as it placed the resources of the great Andine Plateau within reach of the markets of the world, it was largely responsible for the rapid progress Peru has been able to make since the beginning of the Twentieth Century.

A few mines in Chile and Peru, most notably the mines of the Chile Copper Company, the Braden Copper Company and the Cerro de Pasco Company are owned by American corporations; likewise the International Petroleum Company (Peru), the Bethlehem Steel Company (owning the Tofo mines in Chile), and the General Asphalt Company (Venezuela) are important commercial factors in South America.

Owing to the great war now raging the nations involved will likely not have any surplus funds for some time to come; therefor Latin America must necessarily look to the United States for financial aid, and will in time doubtless find us willing to grasp some of the many opportunities which it has to offer.

To begin with, it might be suggested that a number of the larger South American enterprises controlled abroad be invited to make formal application to list their securities on the New York Stock Exchange. It is true that at the present time the American public knows little regarding the merits of these securities, and there is no great likelihood that there would be any extensive market for them in the near future. However, as our investing public become familiar with their intrinsic merit a comparatively large business could no doubt be developed. The companies operating the various railroads in South America will mostly require funds to build extensions and to carry on further development, and it will not be unlikely that they might be able to sell some new issues of bonds and stocks here in this market.

Regarding the safety of many of these investments, it may be stated that a number of the South American railway debentures and bonds sell on the London Stock Exchange in normal times practically on a parity with such bonds as Pennsylvania R. R., Consol. 4s and Atchison General 4s, and that the stocks of a number of the more successful companies sell at from par to $300 per share. When we become acquainted with the Latin American investment field we will doubtless be able to finance various new projects presenting themselves from time to time.

To demonstrate the stability of the general Latin American securities a brief description of a few is here given:

1—Buenos Ayres Great Southern Railway

This is a thoroughly successful railway. Its great network of lines covering approximately 3,727 miles —the largest railway system in Argentine—serve a rich and fertile district throughout the eastern and southern portions of the State of Buenos Ayres and form a direct line from Buenos Ayres to Bahia Blanca. From the latter city, now a place of considerable commercial importance, the system is being extended into the less settled country forming the southerly portion of the State of La Pampas and the districts of Rio Negro and Neuquen. The line further extends across the latter territory to the Chilian border where it will in time connect with one of the railways of Chile and form a transcontinental route. This company is capitalized at approximately $82,000,000 bonds and $185,000,000 preferred and ordinary stock. On these two classes of stock dividends of 5 and 7 per cent., respectively, have been paid over a long period of years.

2—Central Argentine Railway

This line runs through the rich country between Buenos Ayres, Rosario, Cordoba, etc. The company's gross receipts are presumably the largest of any railway in South America, amounting during 1913 to $32,000,000. Its capitalization consists of $65,000,000 bonds and $188,000,000 stock (preferred and common). The common stock of this company which has received from 5 to 6 per cent. in dividends for a number of years, has sold on the London Stock Exchange at

from $90 to $120 per share since the year 1905. 3,151 miles of road are operated.

3—Buenos Ayres and Pacific Railway

This line is most widely known on account of the important part it has played in opening to the world the great Transandine route from Buenos Ayres, through the heart of the mountains to Valparaiso, Chile. From a small beginning in the year 1882 it has expanded its mileage and increased its earnings with considerable rapidity and at the present time operates 3,473 miles of road. The company's capitalization, including securities of leased lines in the hands of the public, is approximately $220,000,000. Gross earnings for 1913 were $28,000,000.

4—Buenos Ayres Western Railway

This is the oldest line in the Republic of Argentine. Its present British owners, who acquired it in 1890 from the Government, have operated it for a number of years with great success. The company's ordinary stock, on which a 7 per cent. dividend is usually paid each year, has sold as high as 143 per share. The mileage operated totals 1,792, and the capitalization amounts to $142,000,000.

5—San Paulo (Brazilian) Railway

This railway, operating 153 miles of line, extending from the port of Santos, Brazil, inland to Sao Paulo, and Jundiahy, earned during the year 1913 more per mile than any railway in the United States. The stock of this company has during recent years sold as high as 270. Dividends have usually been at the rate of 16 per cent. per annum. Coffee is the principal commodity handled.

6—Leopoldina Railway

The Leopoldina Ry. operates 1,786 miles of railway located in the Republic of Brazil. The company, which is under British control, has acquired and consolidated a number of short lines, including the Maua Ry. built in the year 1854 and one of the oldest railways in South America. The lines were, at the time they were taken over, rather lightly built and in poor physical condition. They were, however, rebuilt and put in excellent shape. The railway encounters many very steep grades, some of which vary from 4 to 8 per cent. These grades have made necessary the use of the rack system, switchbacks, the adhesion system, loops, horse-shoe curves, etc. The company is capitalized at about $75,000,000 (bonds and stock) and pays substantial dividends.

7—Antofogasta (Chile) & Bolivia Railway

This company operates approximately 819 miles of railway extending from the Chilian ports of Antofogasta and Mejillones, through the great nitrate fields of Chile and up the Andine slope into Bolivia. This railway—the second highest line in the world—reaches an altitude of 15,809 feet. In spite of its great cost, the railway is in normal times very profitable, a large return being earned on the $53,000,000 capitalization. The company's deferred ordinary stock has sold within the last few years as high as $180 per share.

8—Anglo-Argentine Tramways Co.

This concern controls a large majority of the traction and subway lines in the city of Buenos Ayres, its total mileage being 370 miles. Its capitalization is approximately $95,000,000, and a large profit is returned to the shareholders. Earnings amount to between $250,000 and $300,000 per week. The extent of the traction business in Buenos Ayres is shown by the fact that in the year 1911 a total of 355,531,182 passengers were carried on the various lines throughout the city. It is estimated that 400,000,000 fares were handled in 1914.

9—The Peruvian Corporation

The $37,500,000 preference stock and $45,000,000 ordinary stock of this corporation were issued as fully paid in exchange for the bonds of the Peruvian Governmental loans of 1870 and 1872. The corporation (which also has $25,000,000 bonds outstanding) operates 1,059 miles of railway in Peru and Bolivia, including the famous Oroya Ry, built by Henry Meiggs; steamers on Lake Titicaca, mines, etc. For a number of years dividends have been paid on the preference stock.

Space will not permit further description of Latin American enterprises. Those discussed above are representative companies. There are, however, numerous other large railways, etc., the securities of which are listed in London. In addition no less than 35 large public utility companies and a large number of industrial, mining and other concerns have their stocks and bonds listed in London.

MONEY-BANKING-BUSINESS

What Thinking Men Are Saying

About Financial, Investment and Business Conditions

Judge Gary Expects Sudden Peace.

THE whole world is now proceeding on the assumption of a long war. A year ago the majority believed that the war must be short. They were wrong then. Are they wrong now?

It is evident enough that the financial resources of Europe are already beginning to feel the strain severely. Both France and England are planning to raise large sums of money in this country, probably by hypothecating some of the American securities owned by foreign investors. Germany has issued a flood of paper money, which is rapidly depreciating. She has a big store of gold, but cannot use it in making foreign purchases because of her isolated position. All the nations of Europe are clinging desperately to their gold, but the probability is nevertheless that they will have to send some of it to us in payment for war supplies.

How soon will a shortage of men, money and ammunition compel one side or both to seek peace? Judge Gary believes we are approaching the end. He said recently at San Francisco:

> We are approaching the end of a war that has been and still is destroying life and property almost beyond human calculation. The end may not come immediately, but it will come much sooner than expected by many, including some of those who are most actively participating.
>
> The appalling and daily increasing losses in life and in property to each of the belligerents cannot be long endured by any of them. Already there are signs of fatigue. There is obtainable proof that all countries involved deeply regret that the war was ever started. They are nearing exhaustion. They are sick at heart. We shall at no distant day see peace secured.

* * *

"Greatest Prosperity Ever —If"—Bernard M. Baruch.

BERNARD BARUCH does not often express himself as to business prospects. He lately departed from that rule, but qualified his predictions with several ifs and provisos. He was quoted as follows:

> The most important thing before us financially, commercially and economically, is the immediate organization of an adequate military and naval defense, not only for what this country possesses, but for the protection of the ideals it represents and stands for. The industrial business that has come to our country, not only because of war orders, but on account of the purchases of neutral nations, is sooner or later bound to be felt by the railroads. Better business for the carriers means better business generally, which means national prosperity. Security values are being affected, and will be affected for some time to come by the demand for capital to continue the war and repair the war's damage; but if the uncertainty concerning our ability to defend our possessions and wealth were removed by the organization of an adequate defense I believe this country would embark on one of the greatest eras of prosperity ever experienced.

* * *

Is Trust Busting Beginning to Pall?

REPORTS from Washington, which seem to be authentic, are to the effect that the Government will not begin any more suits against the big corporations and will carry through those now in progress more as a matter of form than with any real expectation of winning. In the meantime the Federal Trade Commission will adopt a constructive policy. Says the *Sun's* Washington correspondent:

> Evidences have indicated for some time that the Government was growing weary of the trust busting business and that recent adverse decisions in the Federal courts construing the Sherman law, together with an aroused public sentiment against the continued baiting of business by the Government, were exerting a restraining influence on the Government's representatives.
>
> At the same time the suggestion was made that the newly-created Federal Trade Commission would in a large measure take over the task of disciplining business and that hereafter no business would be subjected to penalties until it has had its day

in court and has been given a chance to clean house. Announcements within the last few days from the new Federal Trade Commission have served to emphasize the fact that that body is concerned at present more deeply over the possibility of helping business than it is in exercising destructive influences.

The worst blow dealt to the Government recently in its attacks on business was the refusal of the Supreme Court by unanimous decision to review the Cash Register cases, involving the criminal sections of the Sherman law. The admission was made in the Government's brief in that case that if the motion for a review was denied a serious blow would be delivered to the Government's efforts to enforce the criminal sections in any other case.

After this decision Department of Justice officials took a gloomy view of criminal prosecutions under the Sherman law and there have been suggestions that trust busting was rapidly verging toward a state where it might be described as a "lost art."

The Federal Trade Commission already has mapped out for itself a large program of constructive activity. Leaving Washington this month, the commission will hold hearings in many cities, including Chicago, Indianapolis and St. Paul, and then proceed westward to the coast. Many phases of the trust problem will be surveyed and big business will be heard.

Another significant undertaking on the part of the new trade commission is its move to aid the business men of the country in obtaining additional credits to which their business operations may entitle them. It also proposes to aid business in establishing a standard system of bookkeeping and cost accounts.

The commission is now working on plans for dividing the country into zones and maintaining in each experts in accounting and manufacturing, upon whom manufacturers, merchants and business men may call for expert advice and assistance in establishing reforms.

Gen. Hi Costo Livin Takes a New Trench.

THE average of commodity prices struck a new high record July 1 at 9.86 for *Bradstreet's* Index. This compares with 8.86 last November, and with a previous high of 9.85 August 15, 1914, in the wild speculative bulge which followed the beginning of the war. Before the war the high point was 9.54 in December, 1912, and the low point for ten years was 7.72 in June, 1908. The advance over a year ago is about 14%.

The greatest gains have been in breadstuffs, metals, drugs and chemicals. The changes in the various groups that make up the Index are shown herewith:

	July 1, 1914.	Aug. 15, 1914.	July 1, 1915.
Breadstuffs	$0.0889	$0.1001	$0.1202
Live stock	.4575	.4860	.4320
Provisions	2.1934	2.5006	2.2552
Fruits	.1854	.2305	.1698
Hides and leather	1.3550	1.4300	1.4600
Textiles	2.3863	2.3704	2.3517
Metals	.5634	.8707	.7410
Coal and Coke	.0067	.0067	.0064
Oils	.3579	.3755	.3760
Naval stores	.0814	.0784	.0676
Building materials	.0823	.0822	.0829
Chemicals and drugs	.5883	1.0096	1.5366
Miscellaneous	.3101	.3088	.2604
Total	8.6566	9.8495	9.8598

* * *

A Credit Expansion of $6,000,000,000.

OUR bank position places absolutely no limit on possible business expansion now. It would certainly seem that the "tight money" ghost had been laid

THE GOOSE STEP.

"Everybody's Doing It, Doing It, Doing It!"

—Puck.

for a long time to come. Byron W. Holt calls attention to this feature:

No nation ever before had as much banking credit to work with as our nation now has. The 7,523 Federal Reserve banks now have a surplus reserve of $736,000,000. As the loaning power of these banks is about five times the amount of their reserves, they have a loaning power of about $3,500,000,000. As there are over 30,000 banks in this country and as less than one-third of our total banking resources are in the Federal Reserve banks, it is probable that our banking situation would permit a credit expansion of more than $6,000,000,000.

These figures contain great possibilities both for Wall Street and for the country as a whole—of which Wall Street is the financial heart.

Not only do we look for very big advances in the war-order stocks, but we are becoming more and more of the opinion that conditions will soon be favorable for an advance in the general market. This means that with record crops at high prices (except as to cotton); with more money for speculative purposes than ever before; with the world's hoards of gold coming to our banks and vaults; and with immense war orders to start the industrial ball rolling, we look for pronounced business revival next fall. The stock market has, in our opinion, already begun to discount such a revival. We expect no more marked declines in the average prices of stocks—not even if we break with Germany, diplomatically—as is not highly improbable.

* * *

Gradual European Liquidation Continues.

CLARK, CHILDS & CO. have been investigating the progress of European liquidation and find that the quantity of the Harriman stocks now held by New York houses for European owners is about 25 per cent. less than three months ago. The subject of European selling of securities is naturally attracting much attention from investment houses:

Knauth, Nachod & Kuhne: Since the war began, there have been three distinct stages of European liquidation of American securities. The first and most violent was the heavy July selling of last year, which was finally checked by the closing of the stock exchanges. The second stage was more orderly and induced partly by the advances in Wall Street prices last spring. The third stage represents the present exertions of English investors to enlarge their cash resources so as to enable them to subscribe liberally for this crucial $5,000,000,000 loan.

How much further this liquidation will go

A TRIUMPHANT ENTRY.
—*N. Y. World.*

depends very largely upon the movement of sterling exchange.

There is apparent foundation for the estimate—based partly on application for surety bonds to protect the foreign buyers against loss through failure or inability of the American manufacturers to carry out their contracts—that the so-called "war orders" amount to at least $1,500,000,000. This estimate has been criticized in some quarters as too small, so there is little doubt that it is conservative.

A fact to remember is that very little of this business has been actually delivered as yet. A canvass recently made shows that deliveries cannot reach full headway before September or October. It is clear, therefore, that unless the foreign governments interested succeed in obtaining very heavy credit balances in this market, on which to draw in paying for supplies as the contracts are filled, foreign exchange rates must seek a much lower level. As the decline in exchange becomes more pronounced, it is fair to assume that the liquidation of American securities held abroad will increase. This liquidation, therefore, may come in spurts as opportunity offers.

The liquidation that has already taken place has pretty well exhausted Europe's speculative holdings of American securities. They have been absorbed by this market. The investment holdings will be for reasons explained much more difficult to dislodge.

H. P. Taylor & Co.: No investor needs to be told that, high as the promised new yield on British bonds is compared with the terms upon which the Government borrowed

heretofore, it is not sufficient to entice foreign investors away from the opportunities presented by the American security markets (especially as an era of marked business activity and prosperity is foreshadowed in the United States) except as patriotism supplies a motive. And in this fact doubtless is to be found the explanation of the high levels that have been established in the Wall Street stock market in the face of the foreign crisis and the fear at one time prevalent on this side that sales of our shares for European account would annihilate prices and produce serious financial derangement.

The upshot of the whole situation is that the French and British governments are being advised most seriously by bankers to buy up American railroad and other investment bonds in the London and Paris markets, paying for them with government "scrip" and using them as a basis for government credits in the United States. Pennsylvania Railroad and St. Paul 4's are both reported to have been bought in Paris for French government account with a credit plan of the sort just outlined in view. The announcement that J. P. Morgan & Co. have just arranged a loan of $50,000,000 for the French Government in New York (the same amount as one secured by that government in New York two months ago) is accompanied by a statement that American railroad bonds are to be deposited as collateral. This will be regarded as in a measure confirming the statements that the two leading allied powers have virtually agreed upon the above-indicated method of financing their requirements in the American commodity markets. Great Britain will in addition, no doubt, make a determined effort to sell a considerable portion of her forthcoming output of 4½ per cent. consols in the United States.

Why an American investor should fail to take advantage of the comparatively low prices still quoted for prime American bonds in view of all the foregoing is not clear, unless it be that there is an expectation in many quarters of a high rate for money in the near future and a resultant opportunity to secure prime investment bonds on still more attractive terms than those now prevailing.

* * *

Some Bargains in Railroad Stocks.

THE high yield on the investment now shown by many standard railroad stocks is attracting considerable attention. If the rising tide of prosperity brings better business to these companies, their stocks should be worth more money before long. Floyd W. Mundy, author of "The Earning Power of Railroads," contributes the following lists to the *American:*

In the first list are preferred stocks which are first-class investment issues. The speculative possibilities, however, are limited in that the dividends for the most part are restricted to stated amounts. There are exceptions to this in the case of Chicago, Milwaukee &. St. Paul Ry. preferred and Chicago & Northwestern Ry. preferred.

The second list consists of standard dividend-paying common stocks which offer favorable speculative possibilities if, as and when conditions shall so change as to promote greater confidence in securties of railroads. The stocks referred to are only those which sell at reasonably low prices.

Each company whose stock is mentioned has pursued for years past what we nowadays hear referred to as a "constructive" financial policy, in that a substantial part of the financial requirements of each company has been met from undivided earnings or by the sale of stock to the partners of the company—the stockholders. This policy has tended to keep fixed charges down; by the same token the margin of safety of each company has been maintained at a high level, and in turn the financial integrity of each company has been maintained.

PREFERRED STOCKS

	Div.	P'ice.	Yield.
Atchison	5	97	5.20
B. & O.	4	70	5.70
***St. Paul**	7	125	5.60
****Chicago & Norwest**	8	127	6.35
***"Soo"**	7	127	5.55
Norfolk & Western	4	89	4.50
Reading 1st ($50 par)	4	85	4.70
Reading 2d ($50 par)	4	84	4.80
Union Pacific	4	80	5.00

*The preferred is entitled to 1 per cent.

FLUCTUATING.
—*Evening World.*

per annum in priority to the common shares pro rata with the common after it has been paid on that issue.

**The preferred is entitled to 7 per cent. per annum, and, after 7 per cent. has been paid on the common, to 3 per cent. additional; after 10 per cent. has been paid on the common, both issues share equally.

COMMON STOCKS

	Div.	P'ice.	Yield.
Atchison	6	100	6.00
Atlantic Coast Line	5	100	5.00
B. & O.	5	76	6.60
‡Gt. Northern	7	117	6.00
Louis & Nashville	5	109	4.60
†"Soo"	7	110	6.40
N. Y. Central	5	86	5.80
Norfolk & Western	6	102	5.90
Nor. Pacific	7	103	6.80
Pennsylvania ($50 par)	6	106	5.70
Reading ($50 par)	8	146	5.50
So. Pacific	6	86	7.00
Union Pacific	8	126	6.40

†Refers to rate under preferred.
‡Great Northern has no common.

Hayden, Stone & Co.: It is a question whether at this level railroad stocks are not becoming very attractive. To base values on the earnings of any one year is dangerous; at least twice in the last decade we have seen railroad earnings fall off sharply, only to come back strongly in the next year. If the industrial companies are going to do the business which they must do to make the money which the tremendous rise in their shares during the last four months would indicate, then beginning with next fall at the latest, the railroads must enjoy a movement of traffic that will restore their earnings very quickly. Europe's need for our manufactured products has made wonderful profits for our industrial companies and remarkable opportunities in the shares of those companies. It may well be that Europe's need to dispose of her railroad stock holdings to pay for those very goods may likewise be the opportunity of America to purchase those stocks at low figures.

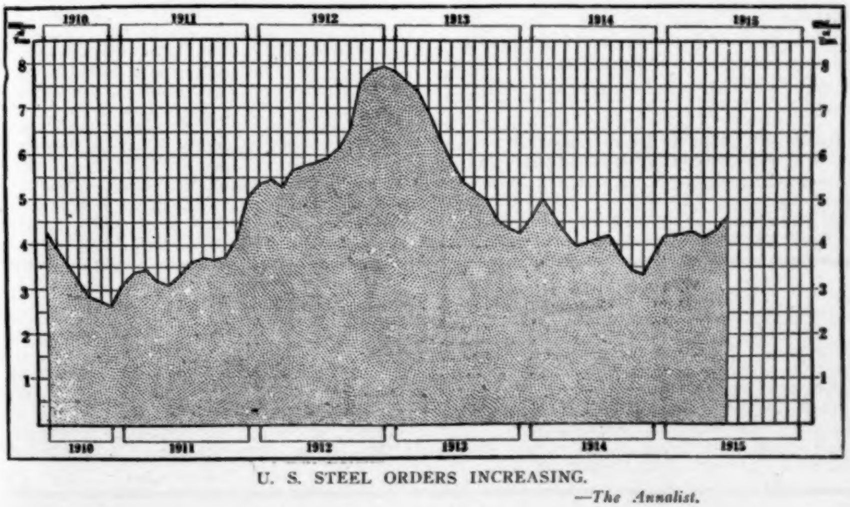
We would not imply that there is likely to be a profit equal to that realized in some of the industrials, because the earnings of the industrial companies is unlimited, while under our present political structure, the profits of the railroads is very strictly limited; but the price at which many railroad stocks are selling discounts a general reduction in dividends which soon would have to come if there were no improvement, but if the improvement comes in time to make unnecessary such a reduction, we should expect a very material recovery in their stocks.

* * *

Steel Business Beginning to Boom.

THE gradual growth of orders has now brought the iron and steel business as a whole up to about 90% of its outside capacity, which really represents somewhat more than actual productive capacity under present labor conditions. The big foreign orders for shrapnel are using up a lot of steel. The cut herewith shows the U. S. Steel Corporation's unfilled tonnage and makes it clear that the upward movement is definitely under way.

Matthew Addy & Co.: A slowly expanding



U. S. STEEL ORDERS INCREASING.

—*The Annalist.*

market, with many hesitations and haltings, but still on the whole progressing—that is the iron situation. Finished materials are in undoubtedly better demand and at higher prices. Steel in many of its forms is really active. There is a contradiction in the market in that the unfinished materials, notably pig iron, are not as yet in as good shape as the finished product. Why this is the case is hard to say. But it stands to reason that if there is progress in the upper half of the market, there will undoubtedly be the same progress in the lower half. You can't very well have a demand for bread and biscuits without presently having a demand for flour.

The greatest feature of the market is the steady growth of our export trade. To show how it extends there comes an inquiry here this week for 30,000 galvanized malleable castings for stretchers. This is only one item of many. Of course the major part of this export demand is for war purposes, but not all of it by any means comes from the belligerents. And the pity of it is that ship room is so scant and shipping rates are so high. We are utterly unprepared on the ocean to play a part that in any way is commensurate with our industrial capacity.

* * *

The Outlook for Cotton.

ROUGHLY speaking, our present supplies of cotton are about 3½ million bales above normal—2½ million in the visible supply and another million in farmers' hands. This, of course, is the big bear argument. And the demand from Germany and Austria is now practically shut off. Cotton is 30 cents a pound in Germany and in Russia.

The bull arguments are the reduced acreage and the abundance of cheap money with which to carry the surplus cotton.

Renskorf, Lyon & Co.: There is every warrant for the expectation that ample funds are obtainable to finance twice as much cotton as was financed last year. The sole question of value is the question of consumption. Manufacturing can take care of consumption, if the demand for the finished article is present.

The United States, Spain, Japan and India have machinery sufficient to manufacture every bale of cotton grown, if that machinery should be taxed to its *potential* possibilities.

Cotton is certainly the cheapest textile known, and it certainly appears that reserve supplies of all kinds, including munitions of war, are at a minimum.

Some of the powder that has been burned up was made of cotton grown many years ago. The powder necessary to continue the war must come out of the cotton of today.

Both India and Egypt have made radical reductions in cotton acreage, and today's world's cotton crop, based on a normal yield per acre, should be at least 5,000,000 bales less than last year.

We favor the purchase of cotton as an investment.

* * *

A Cheerful Crop Prospect.

IN view of Europe's continued demands on us for food stuffs, it is especially important that we raise good crops this year. So far our main crops show a fair condition on a very large acreage.

J. S. Bache & Co.: The most substantial basis for complacency in the present situation is the crop outlook which the Government's report on conditions July 1 reveals. It was expected that the heavy and persistent rains of June would work some havoc in the figures. The winter wheat yield, however, is reduced only 8,000,000 bushels, and the total yield of wheat indicates 963,000,000 bushels, exceeding the July indication of last year by 33,000,000 bushels. The bad weather since the 1st of July may reduce these figures somewhat. In corn, reported for the first time this year, the condition is not so favorable, but 2,300,000 more acres have been planted, and a total crop is promised greater than either of the two preceding years. Oat crop indications are for a yield equal to the high figures of 1912. One important part of our population, the agriculture, will thrive again, even if railroads and manufactures do not come up to desires. But both of these will, of course, be helped by the large crop.

Desiccated Oats, 657-683

BATTLE CREEK, July 1.—Contracts for shrapnel to the amount of $5,000,000 have been placed by the Russian Government with the Desiccated Oats Company of this city, and the shares of the corporation have gone up forty points on the Stock Exchange. Officers of the company declare that the first shipment to Europe will be made within a fortnight, as comparatively slight changes in the company's ten acre plant in the outskirts of this city will be necessary. High-precision lathes for the shaping of the shell-casings are now being installed; for the production of the shrapnel contents, the present machinery is entirely adequate.—*Puck.*

A Steady Improvement

A Rising Tide in Steel—Failures Smaller—Building Dull

THE money market shows no change in conditions, the slight decline in rates being due to the natural summer dullness and not to any modification of the real situation as affecting interest rates. The per cent. of cash to deposits in New York banks has fallen a little and the per cent. of loans to deposits has risen, but since reserves are still very large and loans are much under deposits, these minor changes have no effect on the money rate worth mentioning.

Commodity prices, as indicated by Bradstreet's Index, are at a new high level, being in fact a shade higher than the high point of August 15, 1914, immediately after the outbreak of the war. English prices show a slight reaction, but continue extremely high.

The total bank clearings of the U. S. were the largest in June ever recorded for that month with the single exception of June, 1909. Clearings outside New York, however, were not quite equal to June of last year. The relative activity in security circles at New York tends to swell the clearings of that city.

Building operations were abnormally dull in June, the total permits for twenty leading cities being the smallest for any June since 1908, and only about three-quarters those of June, 1914. Total liabilities of failures were just about normal for the month at $18,819,000. In June, 1914, they were extremely large, showing that business men are not feeling such severe pressure. It is probable that the aftermath of the war panic has now been cleared up.

The big trade balance in our favor, rising prices and increased demand for pig iron, price of copper well maintained after its big advance, and fair crop conditions on the average, all tend to create a more cheerful atmosphere. Pig iron production has increased month by month since last December, and the price has been slowly rising since March. Aside from the dullness in building lines, the statistical showing this summer is far the most satisfactory seen for two or three years, and further growth seems to be assured.

The combination of low money rates, rising commodity prices, and increasing production of iron at better prices, has always in the past indicated a further business expansion and we see no reason to think that this year will prove an exception to the rule.

	Average Money Rate Prime Commercial Paper New York.	Average Money Rate European Banks.	Per cent. Cash to Deposits, New York Clearing-house Banks.*	Per cent. Loans to Deposits, New York Clearing-house Banks.*	Bradst's Index of Commodity Pcs.	English Index of Commodity Pcs.
July, 1915	3⅜	5	1.88	95.1	9.86	3,250
June, 1915	3⅝	5	20.9	93.4	9.73	3,327
May, 1915	3⅝	5	20.5	94.7	9.79	3,327
July, 1914	4½	3⅝	26.0	97.0	8.66	2,549
" 1913	6	4⅞	26.6	99.1	8.95	2,669
" 1912	4½	3⅜	25.6	97.7	9.11	2,705
" 1911	3⅞	3⅜	26.3	97.2	8.59	2,517

*Affected by the new Federal Reserve System.

	Total Bank Clearings of U. S. (Millions)	Bank Clearings of U. S. Excluding N. Y. City (Millions)	Balance of Gold Movements —Imports or Exports (Thousands)	Balance of Trade —Imports or Exports (Thousands)	Building Operations, Twenty Cities (Thousands)	Business Failures, Total Liabilities (Thousands)
June, 1915	$14,117	$6,092	....	....	$39,587	$18,819
May, 1915	14,622	5,987	Im. $29,858	Ex. $131,483	54,665	19,596
June, 1914	13,948	6,103	Ex. 44,290	Im. 457	51,929	58,233
" 1913	13,709	5,955	Im. 2,817	Ex. 32,159	48,978	17,392
" 1912	13,628	5,667	Ex. 1,560	Ex. 7,202	57,545	15,815
" 1911	13,833	5,616	Im. 1,693	Ex. 18,899	56,409	13,173

	Wholesale Price of Pig Iron.	Production of Iron (Tons) (Thous'ds).	U. S. Steel Co. Unfilled Tonnage (Thous'ds)†.	Price of Electro. Copper (Cents).	Crop Conditions. Winter Wheat.	Spring Wheat.	Corn.	Cotton.	Babson's Bond Average.
July, 1915	$12.65	.....	.....	19.6	84.4	93.3	81.2	....	87.1
June, 1915	12.65	2,381	4,678	19.8	85.8	94.9	....	80.3	88.7
May, 1915	12.40	2,263	4,264	18.6	92.9	....	....	80.0	89.2
July, 1914	13.30	1,918*	4,032*	13.2	94.1	92.1	85.8	79.6*	90.9
" 1913	13.75	2,628*	5,807*	14.2	81.6	73.8	86.9	81.8*	91.3
" 1912	14.70	2,440*	5,807*	17.2	73.3	89.3	81.5	80.4*	97.4
" 1911	13,25	1,787*	3,361*	12.4	76.8	73.8	80.1	88.2*	98.2

*June. †Last day of mo.

BOND DEPARTMENT

OPPORTUNITIES FOR CONSERVATIVE INVESTORS

BUYING GILT-EDGED BONDS
UNDER
FORCED SALE

How Liquidation by Europe Has Offered Bargains

BY FREDERICK LOWNHAUPT, Author of "Investment Bonds," etc.

EVERY once in a while we are told that bonds are cheap. What does that mean? The average investor does not appreciate what that means like the investment dealer. The investment banker is accustomed to seeing many bonds hover around a definite price level for months and perhaps years, the change being unappreciable. When he sees these bonds decline rapidly, almost in panicky fashion from two to five points below this level he decides they are cheap. In fact if they get down five points, if they are the highest grade security, they are oftentimes bargains.

The average investor does not appreciate what three points means on a high grade bond, such for instance as are legal for the savings banks of New York State. Accustomed to seeing stocks jump up and down from ten to twenty points a mere three or five points mean little to him.

Indeed five points does mean little from the standpoint of safety on this class of bonds because the majority of them have very large margins of safety. We have to look, therefore, to some other circumstances to explain the fall in price. It is usually something other than a fundamental question with the state of the company that is working its influence on the price of the security.

It is just such occasions that create the bargain times. If the market price of the bond were accurately based upon its intrinsic position it would very likely stay for a long while at a high level. Not that the money put into the bond could not do much better somewhere else at a higher rate of income but that in the bond it gets such a high degree of safety that a proportionate amount of income comes off because of it.

Over the past few years thousands of investors have been crying for more income and they have accordingly gone into preferred stocks heavily and also the medium grade bonds yielding well over 5 per cent. This has had a slight effect in lowering the price of the highest grade issues, but not much.

During these same years one thing and another has come up to reduce the price of gilt edged investments till they have come to a point where they are producing more than one-half per cent. over their yield of six or seven years ago.

The last great factor working to depress the price in this class of security has been the unceremonious selling which Europe has done for the past few weeks. So many bonds have come from abroad that all the investment judges have been advising bond buyers to take up these bonds now if they wished them at bargain counter prices.

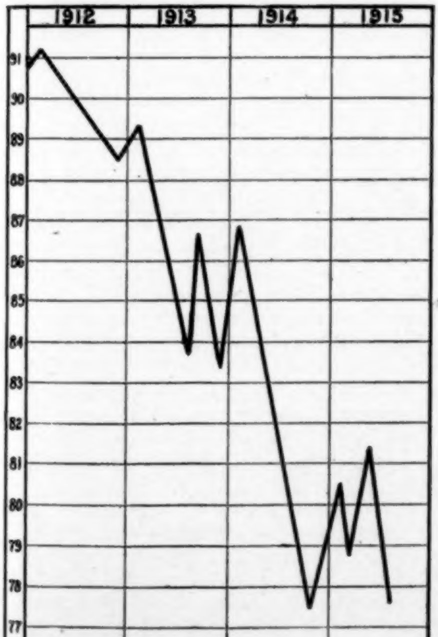
Great loans made by the foreign governments on account of the war have induced investors abroad, particularly institutional holders to part with some of our very highest grade securities that they might take up their own. The great English loan yielding better than 4½ per cent. brought considerable of this selling. The liquidation occurred in our bonds that were selling at a somewhat lower basis of income or at least that had been bought at a lower basis of income than the war loan itself.

Most of these issues were of our railroads. Our industrial and utility bonds in very few cases sell so high as to yield only 4½ per cent. It is our railroad issues, in many cases those legal for savings banks, that attract this kind of selling. Consequently European investors sold great bundles of these high-grade

bonds. Our own market being dull with prices low, it was most natural that further pressure of bonds of this character would carry the level of prices down. There never was a more clearly demonstrated case of the old Economic law of Supply and Demand than in the recent flood of these high grade bonds that came on our market.

The net result of the whole few weeks of this kind of selling was a new low price level giving the wise bond buyer some choice bargains. As a matter of fact, investment houses who had no idea of keeping the bonds but a very short time bought right into the market for a turn. As a result prices hardened somewhat and many of these bonds took a slight upward trend. There has not been sufficient recovery, however, to get them away from the bargain level as can be seen from the accompanying Table I.

This table gives a list of sixteen of the best known and active railroad issues which suffered in the selling from abroad. The comparison with 1912 illustrated by graphic is made because in that year we had a normally good bond



market. If the comparison were made with 1909 the difference would be still greater. In that year we had an unusually high stock market which was reflected in the bond market. In the early part of that year, a few months before the high points of the stock rise, bonds of this group were very high in price. The comparison with 1912 is reasonable because we may expect to see those same prices approached if a strong bond market should set in.

With a dull bond market and light buying investors may right now select from these bonds with the reasonable expectation that within a comparatively short time from one to three points will be added to the price. But aside from this fact which is of no great interest to many investors the income return is about as large as it will be for many years unless we have still further decline in prices of these securities. Such a further decline would come only if the price of the world's capital went to a very high basis. Then there would be some shifting from these high-grade bonds into other things of higher return. But from the appearance of the money markets and the situation in investments today it is not likely that this will happen. The chances are that the new loan of Great Britain will, after the war, sell down to a very much lower income basis than it went out at.

We have said that these bonds are bargains because they are so mucher cheaper than we may expect to get them for some time. Price, however, especially in securities does not always harmonize with fundamental value. But, in the case of many of these bonds the fundamental value is so strong as to make them like gilded gold in the investment field. Enormous margins of safety exist for practically all of them while it is seen that eight of them are legal for the savings banks of New York State. Most of them are old bonds that have been in the market for a long time and are therefore seasoned issues with a quick and accurate market. They are all securities of the largest systems of the country, well maintained, and of good traffic position.

The margin of safety is the vital concern for the bond investor. He wants to know how much if left over after meet-

TABLE I.

Bond	Rate	Due	Approx. Present Price	Price in 1912
*Chic. & Northwestern	4	1987	91⅛	98
P. C. C. & St. L.	4½	1940	98	106¾
Ore. Short Line	4	1929	89⅛	95½
N. Y. C. & St. L.	4	1937	90	100½
*Nor. Pac. P. L.	4	1997	90½	100
Mich. Central	3½	1952	81	86¾
*So. Pac. ref	4	1955	85½	95¼
*Low. & Nash	6	1930	112	116½
Atchison Adj.	4	1995	82	91¾
Central Pac. 1st	4	1949	86½	96¾
Balt. & Ohio Gold 4	4	1948	86	98⅞
*Burlington Jnt.	4	1921	96	97⅝
*Nor. Pac. Gen	3	2047	62½	70
Union Pac.	4	2008	86	97¾
*Chic., M. & St. Paul	4	1989	86⅝	99½
*Del. & Hud	4	1943	91	99

*Legal investment for savings banks in New York State.

ing the bond interest of the company. In Table II is given this vital fact for the year 1914 which, by the way, was a very poor railroad year. If, therefore, these roads are able to show such a conservative margin of safety in a bad year it may be reasoned what will be the situation with one or two good railroad years. At least one year seems imminent. If it happens as a result of good crops and better industrial business from three to five points should be put on the prices of all these bonds. This profit plus the good income they are now producing will show them to have been really cheap at these levels.

While the margin of safety for all of the bonds of a few companies is not great as shown in the table, the bonds mentioned in Table I are for the most part senior bonds having a prior right to net earnings which makes for their stability.

TABLE II.

Amount of the Net Earnings Used to Pay Fixed Charges, 1914.

	%
Chic. & Northwestern	55
P. C. C. & St. L.	77
Ore. Short Line	†
N. Y. C. & St. L.	94
Mich. Cent.	*
So. Pac.	65
Low. & Nashville	60
Atchison	50
Central Pacific	‡
Baltimore & Ohio	70
Great Northern, Burl. Jnt. 4s	37
Nor. Pacific, Burl. Jnt. 4s	40
Union Pacific	39
Chic., M. & St. Paul	55
Del. & Hudson	60

*Small deficit.
†Bonds gtd. by Union Pacific.
‡Bonds gtd. by So. Pacific.

PENNSYLVANIA RAILROAD FACTS

The freight service rendered by the Pennsylvania System in a year is the equivalent of one ton carried 36,900,000,000 miles; the passenger service is equivalent to one person carried 4,500,000,000 miles. The System's receipts are one million dollars per day. It pays out in wages a half million dollars daily and for supplies a quarter of a million. Its employes, in normal times, number upward of 250,000 and its payrolls indirectly support 1,000,000 persons.

It was the first railroad to adopt all-steel equipment and now owns nearly 3,000 all-steel passenger cars, or one-third of the entire number in the country. The safety first movement originated with the Pennsylvania Railroad System. It employs the highest character of men and selects them with the greatest care of any railroad. It has been the leader among American railroads in double and quadruple tracking, use of automatic block signals, elimination of grade crossings, use of steel and concrete for bridges, adoption of electric motive power, substitution of steel for iron rails, stone ballasting, ditching, reduction of grades and curves, and the planning and construction of modern terminals.

The Pennsylvania Railroad System has 11,800 miles of line, 26,400 miles of track, 7,500 locomotives, 275,000 freight cars and 6,800 passenger cars. It traverses 13 states and the District of Columbia, and supplies transportation service to more than half the population of the United States. Its 4,500 stations include eight of the 10 largest cities in the country.

Why These Issues Should Appeal to the Investor

Opportunities in Canadian Municipals

By WILLIAM V. C. RUXTON

THAT investors in the United States since January 1 of this year have absorbed some $60,000,000 of Canadian securities, is a self-evident proof that the public of this country has become aware of the merits of Canadian bonds, and has begun to realize the advantage of including bonds of cities and provinces of Canada in their list of investments.

The history of the rise and popularity of Canadian issues in this country is short. Only about five years ago certain New York bond houses saw through the haze of public opinion against investments in foreign countries and realized the merits of Canadian municipals. Few, however, cared to undertake the task of educating their clientele to this type of investment until a few issues of provincial bonds were offered to the public and sold in remarkably short time.

Then the bond houses began to look for Canadian municipals. One factor, however, stood in the way of establishing a good demand for these in the United States securities—that was London. Canadian bonds have for a long time been an attractive form of investment to the English bond holder, so that Canada enjoyed in London a market for her securities such as New York offered to the municipalities of this country. Not until the London market was partly cut off by the demand for British money at home was it possible to buy Canadian bonds on a basis high enough to attract the American investor.

The outbreak of hostilities in the first week of August last completely cut off this London market, while the three months that followed were marked by almost complete cessation of investment buying anywhere. Gradually, however, through the month of November, confidence returned, and by January 1 we had come to a point where there was a surprisingly big demand for these securities, which were then selling on a very attractive basis.

There has been no appreciable change in the situation so far as the rate of income that may be obtained on these securities is concerned. High Grade Provincial bonds can now be bought to yield as much as 5.40 per cent., as may be seen from the following list:

Bond.	Rate.	Due.	Approx. Yield.
Prov. of Alberta	5%	1925	5.40
Prov. of Sask	5%	1918	5.40
Prov. of Manitoba	5%	1920	5.05

Taking into consideration the fact that not so very long ago these same bonds sold in London on a little better than a 4 per cent. basis, it can well be understood why some of the most conservative bond houses are advising their clients to take advantage of the opportunity existing.

I do not mean by this that these investment houses are seeking to convey the impression that we are on the verge of a sudden advance in Canadians, which would, of course, lower the rate of income, nor that the man who has a couple of thousand dollars to invest should put all his money in this type of bond, with the expectation of quick profits, but if a man has money that he can afford to put away and forget about it for a few years, every indication points to a day when he should be able to realize a nice profit, all the while having the highest kind of security.

A study of the four basic principles used in the investigation of all securities, as applied to Canadian bonds, reveals first, strong security; second, a

high return; third, prospects of appreciation; and fourth, better marketability.

Applying these principles to Canadian bonds, interesting facts appear.

Municipal bonds generally are in a class distinct as to safety. It is an admitted fact that no better security can be had, with the possible exception of a government issue. I will not, therefore enumerate the merits of municipal bonds, but as to security rather compare Canadian municipals with those of this country.

During the last twenty years, default on Canadian municipalities is practically unknown. Prior to that time, that is, prior to the time when Canadian municipalities had any sort of supervision by the provincial legislatures, there are only one or two cases on record, and these were more in the nature of suspension of interest payment than of an actual default. While the record of actual municipal defaults in this country is very small, the majority of cases have occurred in towns which, through the discovery of some natural resources in the vicinity, sprung up quickly, and later vanished when it was discovered that this resource could not be made to come up to expectations.

A trip through Western Canada will quickly dispel the idea that such a situation might easily occur in that country. It does not take a bond expert to tell that cities like Calgary, Edmonton, Regina, Winnipeg and other of the larger Western towns have come to stay. In any of these we find beautiful homes, tall office buildings, well paved streets with car lines, and well-kept parks. The impression of many investors that Western Canadian cities are much like our Western cities of thirty or forty years ago is entirely wrong. They are like our own second-class cities. This new and glorious country was and is not being built by fortune hunters, but by Englishmen and Canadians who, accustomed to the conveniences and comforts of the older cities, are modelling these Western towns from their past experience.

Canadian cities, like those of this country, are limited to the amount of debt they may assume. Each year the financial standing of these cities is strengthened by legislation, which provides for constantly increasing supervision.

The legality of an issue the average investor cannot investigate. The bonds must, therefore, be sound from this standpoint. One province in Canada has already provided for this by passing a law that once an issue has been passed upon by the Lieutenant-Governor-in-Council, its contestability on any ground whatsoever is impossible.

To take up the second point in question, namely, that of the return on money invested, one can do little better than to look through the Canadian municipal offerings of various bond houses, and compare the return on these securities with that offered by bonds of other classes. A comparison of values with price will reveal in almost every case the opportunities offered by these bonds.

The questions of the prospect of appreciation in value and of the marketability of these securities are closely united, for with the security that stands behind these bonds, it is only the present lack of market that keeps such bonds as these at the figure at which they are now selling.

The unnatural and extraordinary conditions of the past few months have been a blessing in disguise for Canadian municipals, at least, for they have brought about an internationalization of market for these issues that the Canadians have been trying to get for some years.

A heavy drift of Canadian municipals into this country has created a market position here that will inure to the benefit of all this class of bonds in the future.

When we return again to normal conditions, and Europe begins buying securities, Canada will then have this international market for her issues, because she has established a popularity for her bonds in this country while her London market will come back.

Although British colonies have, to a great extent, suffered from the war in Europe, nothing but such a crisis as this could ever have brought about such close relationship as the colonies ought to enjoy with the mother country. It seems to be an admitted fact that when this struggle is over, Canada, Australia and other of the more important British possessions will receive direct representation in the English parliament, and this, as much as any one thing, will tend to draw these countries closer together, all of which makes for the betterment of the market for Canadian municipals.

Canada expects, before long, to have 100,000 men in the field, and to maintain this force throughout the duration of the war. Already the Canadian troops have covered themselves with glory, and England realizes that she has in Canada not only a large territory from which to get grain, and to send her overflow of population, but a power which must be consulted in questions of national policy.

With a good demand, then, for Canadian bonds in London, and a new market in New York, Canadian issues should rise to a point as yet untouched in their history.

Current Bond Offerings

State of Louisiana 5s

N. W. Halsey & Co. and Wm. R. Compton Co. are offering $1,250,000 Port Commission Harbor Improvement 5 per cent. bonds due serially from 1923 to 1955. These bonds are a direct obligation of the State of Louisiana issued by the Board of Commissioners of the Port of New Orleans, properly ratified by the people of the State for the purpose of erecting and operating warehouses and other structures necessary to the commerce of the State. The bonds are exempt from Federal Income tax and are expected to become available to secure Postal Savings Deposits. They are offered at prices to net about 4.50 per cent.

Northern Ohio Traction & Light Co.

Hayden, Miller & Co. are offering the 6 per cent. secured bonds of this company in various denominations due various dates. The bonds are a direct obligation of the Northern Ohio Traction & Light Co. which in 1914 operated 236.77 miles in and about Cleveland. Gross earnings were $3,636,084 and net $1,398,656. After paying all interest there remained $791,757. The company has preferred and common stock with a present market value of approximately $8,000,000 on which it paid dividends in 1914 of $632,364. The bonds are offered at par to yield about 6 per cent.

Indiana Steel Company

Colgate, Parker & Co. and Hambleton & Co., New York, are offering $1,250,000 of this company's first mortgage 5 per cent. bonds due 1952, of which there are authorized $40,000,000 and outstanding $18,035,000 payment of principal and interest unconditionally guaranteed by the United States Steel Corporation. The bonds are a first mortgage on the large Gary plant at Gary, Indiana. The actual cost up to December 31, 1914, of this plant was $59,348,000. There is a sinking fund to retire a large amount of these bonds before maturity. They are offered at 101 and interest to yield a trifle under 5 per cent.

It is intelligence that commands large income returns, in the investment of funds, as in other fields.

Bond Market Topics

Frightening Investors by the Decline in Prices.

TOO MUCH reading of the papers while Europeans were selling back to us some of our best securities sent a bad fright through hundreds of investors in this country. They were watching the papers day by day and seeing the declines in the high grade bonds of the Atchison, Union Pacific, New York Telephone and other properties whose stability is almost as unquestioned as that of the United States itself.

It was a fact that quite a number of investors holding these highest grade and gilt edged bonds rushed into the market, throwing over a part if not all of their belongings of this character for fear that something awful was happening.

It needed only such talk as reduction of St. Paul dividend, poor earnings of the Louisville & Nashville and similar incidents to give them the blues and frighten them thoroughly. Quite a few investors threw over their high grade railroad bonds and made a rush for municipal securities giving them much less yield. They hardly stopped to think that the decline in prices was not due to any fundamentally impaired position of these bonds, but only to the hurried and sacrificial selling by people who wanted the money for the time being more than they wanted the bonds. One thing always happens when this condition exists—prices go down.

Instead of getting frightened the average American investor should have rushed in and bought more, thus getting his average price down so that in the rise in prices which is almost certain to ensue he could make a handsome profit.

The wise investment dealers took on quite a lot of these good bonds knowing that the day was coming when they could be sold at a profit. In the mean time their income return would carry them handsomely.

Thousands of investors get the idea when they see a quotation decline that they are losing something. They don't realize that they lose nothing until they have *sold* the security at a loss. Further, the great majority are in the investment to stay for a long time. During this time the bonds will fluctuate up and down past the price they may have paid perhaps several times.

There is no argument against watching the quotations, but there is an argument that whoever watches the quotations in this way should understand some fundamental facts to prevent fright.

The recent episode in the bond market showed plainly that prices will fluctuate regardless of the intrinsic merit or value of the security.

The Cheapness of the Gilt-Edged Securities.

QUITE A few of the investment dealers have been trying to impress on their clientele that really cheap high grade bonds come along only once in a great while, and that that once is here now. This can be proved by studying the course of prices over a period of years of the highest grade securities that yield from 4.25 per cent. to 4.75 per cent. The average of any group of bonds will show quite a little change, but this average is made up by including a number of medium grade bonds.

Of course if high grade bonds are a purchase, medium grade issues are practically a bargain. There are quite a few such bonds that will show considerable appreciation over the coming years because of the push they will get from the market movement upward and from the betterment in the fundamental position of many companies.

Investors have been urged by both the newspapers and the investment bankers that if they chose to get the highest grade bonds, particularly railroad issues, now is their time. It was evident that once the pressure of selling was lifted many of these bonds would return to their former levels.

Bonds of this character do not fluctuate much because the majority of them are seasoned issues with large margins of safety. In fact many of them are legal investments for savings banks in New York State which has the most stringent of laws in respect to what these banks may buy.

So that when a decline of nearly four points occurs like, for instance, in New York Telephone 4½s, which recently fell from over 97 to under 94 (these are not savings bank bonds) it is manifestly a time for their purchase.

A decline of four points may not seem much when you consider the tremendous rises and falls in some stocks and when you consider the great fluctuations in many middle grade bonds, but it really is much. In normal times such a decline would set going a lot of talk or investigation because these high grade bonds move by eighths and quarters and not by points except over long periods.

The railroad issues suffered most in the recent selling because possibly they were showing such poor earnings, but the sellers evidently did not stop to think very hard that these bonds were just as safe as ever.

Of course these high grade bonds are not likely to sink down to a level where the income is really very high, but they are now at a level where their prices indicate they are really cheap.

An Analysis of the So-Called Receivership Issues

Opportunities in Listed Bonds

By F. M. VAN WICKLEN

BUYING bonds of properties in receivership or threatened with receivership may not appeal to the average investor, yet many good buyers make considerable profits in doing just this sort of thing. It so happens that the present market offers several opportunities to this class of buyers that look promising.

The bonds in question comprise closed underlying issues that have been outstanding for a long time and that are secured by mortgages on the old integral portions of their respective systems. They are usually found to cover the lines on which the greatest traffic density occurs and which are indispensable. Branch lines, extensions, feeders, etc., if they are unprofitable may be eliminated in reorganization and the bonds covering them scaled down or wiped out entirely. But those secured on the heart of a property, if they are at all close to the rails, are rarely disturbed.

During normal times, when the properties whose bonds are mentioned in this article were earning substantial sums over and above fixed charges, their underlying bonds sold considerably above their present prices and were regarded as safe beyond question. Their floating supply was small as they were held strictly for investment purposes by financial institutions, insurance companies, estates, individuals, etc.

Due to various causes—poor business conditions, hostile legislation, insufficient rates, inefficient management, etc., these properties have either been forced into receivership or have reached a point where reorganization, if not receivership, has become imperative. The securities of these properties have as a result suffered very large depreciation in price.

To obtain a general idea as to the standing the old mortgage issues are likely to have in reorganization, several factors are considered, among them, the causes of the property's downfall, its potential earning power under normal conditions, its capitalization, the proportion of stock and bonds, the amount of junior obligations, which class of securities is likely to bear the brunt of the reorganization and furnish the new money needed, etc., in other words, all the factors which will tend to give a reasonably fair idea as to the true worth of the underlying bonds.

As a rule the underlying bonds remain undisturbed and the burden of the reorganization borne by the junior bondholders and by the stockholders. There have been instances where the receiver of a property has issued receiver's certificates which have been given a lien prior to the underlying bonds. It will be found, however, that receiver's certificates are nearly always paid off in reorganization through the new money raised by assessing stockholders and in some cases junior bondholders, leaving the lien of the underlying bonds unchanged.

There are good reasons why the present time is particularly advantageous for picking up underlying securities of properties awaiting reorganization. A reorganization does not always mean that a property is permanently out of its difficulties and on the road to prosperity. Within the last few years several railroads have been taken out of receivership and reorganized, only to fall again into trouble.

One of the main reasons for this has been the poor business conditions through which we have been passing, augmented by increases in operating costs and low traffic rates.

There are strong indications, however, that the worst has been seen and that the period confronting us will be one of comparative prosperity and upbuilding. There is also the indication that the attitude of the government

towards corporations in this country has undergone a change and that there is likely to be a let-up in the aggressive legislative campaign that has been carried to excess against business. It would seem therefore as if a favorable time for the successful reorganization of weak properties were approaching.

Attention is called to certain issues of the following railroad companies awaiting reorganization:

Chicago & Eastern Illinois R. R. Co.

The First Consolidated Mortgage 6's, due 1934, of this road, are selling around 96, forty-three points below the price at which they sold in 1906. They were first issued in 1884 and their outstanding amount is closed at $2,736,000. They are secured by a first mortgage on 107 miles of the main line of the Chicago & Eastern Illinois out of Chicago, and on 23 miles of additional main line subject to $188,000 prior liens.

The mileage covered, constituting the main stem of the system and affording access to Chicago, is absolutely indispensable to the successful operation of the property, and these bonds appear to hold an unusually strong position. They are followed by $21,343,000 General Consolidated 5's, by $6,000,000 Receivers' Certificates and by $18,000,000 Refunding 4's, also by $19,400,000 capital stock.

The interest due April 1 last on these bonds was defaulted, although the Protective Committee has arranged to advance the amount of this coupon to all bondholders who deposit their bonds with it. They are therefore selling at present plus the April coupon of 3 per cent.

Current earnings of the Chicago & Eastern Illinois are poor, and there does not seem much prospect of an immediate reorganization. Those who can afford to have patience, however, have here an opportunity of picking up what appears to be a great bargain in these 6 per cent. bonds.

St. Louis & San Francisco R. R. Co.

This road is in receivership, but indications are that it will soon be reorganized on a basis that will leave undisturbed the company's General Mortgage 5's and 6's, due 1931, which may be purchased to yield over 5 per cent. The issue amounts to $20,098,000, of which $10,614,000 are pledged under the company's refunding mortgage and $9,484,000 are outstanding. They cover approximately 1,000 miles of the best mileage of the system, being a first mortgage on 659 miles, and on 328 miles additional subject to only $577,000 prior liens. They are followed by about $145,000,000 junior obligations and by $50,000,000 stock.

Another bond of the Frisco system that may be obtained to yield around 5.25 per cent. and that looks without doubt to be beyond the possibility of any readjustment is the Kansas City, Ft. Scott & Memphis Consolidated Mortgage 6 per cent. issue, due 1928. It is well known that the Fort Scott portion of the Frisco system is one of the most valuable properties in that system, and even during receivership the regular dividends guaranteed to Ft. Scott preferred stockholders under the lease to the St. Louis & San Francisco have been kept up. It is fairly evident that the Frisco does not want to lose the Ft. Scott property.

International & Great Northern Ry. Co.

This company's First Mortgage 6's, due 1919, may be obtained to yield over 6 per cent. They are secured by a closed first mortgage at the low rate of $10,200 per mile on the entire road owned by the company. Their outstanding amount is $11,291,000 compared with an official valuation of the property made a short time ago by the Texas Railroad Commission of over $32,000,000.

This company has had a series of misfortunes, disastrous floods, the Mexican war which closed the Laredo gateway and the stoppage of the movement of last year's cotton crop due to the European war.

A reorganization seems remote unless there is a sudden change of conditions affecting the property. In the meantime these bonds appear to hold a sound position, and when the reorganization does come the burden of it should fall on the Refunding Mortgage 5 per cent. bonds, of which $14,530,000 are outstanding, $13,750,000 being deposited as security for the $11,000,000 notes now in default.

Missouri, Kansas & Texas Ry. Co.

Although this company has made arrangements for the extension of its $19,000,000 notes until May 1, 1916, its immediate future does not look very promising and it is likely that a comprehensive financial readjustment must be undertaken to save the property from difficulties. Not only must these notes be permanently provided for, but some way must be found to raise funds to carry on improvement work which is said to be necessary, especially on the company's lines in Texas.

There seems to be no way under its existing mortgages for the company to provide itself with new money on favorable terms, and it would therefore appear that a general readjustment of its junior mortgage debt were necessary.

Under present conditions, however, there seems little or no danger of the First Mortgage 4 per cent. bonds of the system being disturbed. They are secured by an underlying closed first mortgage on 1,114 miles of road including the most essential portion of the system. They have a very large

equity in the property being followed by a considerable amount of bonds and stock.

These bonds have sold frequently in the past above par. At their present price around 75 the yield is about 5.35 per cent.

There should be little difficulty in readjusting the finances of the Missouri, Kansas & Texas from the standpoint of the earning power of the system. For the year ended June 30, 1914, this company reported a surplus, over fixed charges, amounting to $540,000, while current net earnings are far in excess of those of last year.

Missouri Pacific System

The Missouri Pacific is not in receivership, but it is recognized that the only thing that will prevent a receivership is a prompt readjustment of its finances. The recently announced plan is the result of the efforts of the several committees representing Missouri Pacific security holders looking toward such adjustment, but whether the plan can be carried out successfully on its present basis is a matter of uncertainty.

The plan shows that a considerable amount of labor and ingenuity has been spent in its preparation, although some discontent is evidenced among holders of the Missouri Pacific Consolidated 6's and also of the Collateral Trust 5 per cent. bonds. These holders are at a loss to understand why their lien or status should be disturbed when provision is made to pay off at par in cash approximately $25,000,000 notes. In explanation, the argument is advanced that these notes have a lien through deposit of collateral on the property of the Iron Mountain which is the backbone of the Missouri Pacific system, and that they must therefore be taken care of. Their lien is a junior one, however, and whether the intrinsic value of the security as such is stronger than that of the Missouri Pacific bonds above referred to, which are secured in part by first mortgages and which are much closer to the rails, is a difficult question for anyone, unless he is in intimate touch with traffic conditions on the respective lines covered, to answer.

On the face of things, it appears that it will be difficult to dissuade holders of these bonds from the idea that something at least ought to be sacrificed by the noteholders, even though these bondholders have apparently received fair treatment.

The Consolidated Mortgage 6 per cent. bondholders are especially disconcerted, as the security of their lien looks unassailable.

According to report these bonds cover property on which the traffic density averages 1,500,000 ton miles, which, considering the nature of the traffic handled, is a very excellent showing and compares with an average traffic density of about 600,000 ton miles for the whole Missouri Pacific system.

The issue is dated 1880 and the amount outstanding is $14,904,000. The bonds are secured by a first mortgage on 755 miles of road, including important main line mileage. They also cover 354 miles additional subject to prior liens. Altogether this issue covers the most important part of the Missouri Pacific branch of the system.

According to the readjustment plan these 6 per cent. bonds are to be given 110 per cent. in new 5 per cent. bonds. Figuring the 5's at 90, which would seem to be conservative, a purchaser of the 6's at 100 (they are now selling around 98½) would receive in exchange securities having a market value of 100 and yielding an annual income return of 5½ per cent. Eventually, with a return to normal conditions and with the Missouri Pacific property on a firm basis, such as should be realized after reorganization, these new 5 per cent. bonds should sell considerably above 90.

How to Send Money to a Broker

Having ascertained the reliability of a broker, there is practically no danger in sending money to him in advance of the purchase. This is constantly done in large commitments, and the investor never has any fear that a reputable broker will fail to carry out his orders. The essential point is to know that you are dealing with a reliable firm. Never make the mistake of sending a check on your local bank. If you are buying through brokers in another city, always secure funds on the city to which you are writing. Buy at your local bank a draft on the city where your broker is located, or a money order at the post office or at an express office.

Often persons who have had but little experience in financial affairs prefer not to remit to a broker before receiving the securities, no matter how reliable he may be. This difficulty can be met by arranging the transaction through your local bank. The bank will transmit the order to its correspondent in New York, Chicago, or wherever your broker is. The corresponding bank in the large city will turn the order over to a broker for execution, will arrange for the transfer of the stock into the name of the purchaser if so desired, and will deliver the certificate at his local bank.

In the case of coupon or bearer bonds, a firm is willing to send them with draft attached on your local bank; but it can not do so with stocks, which must be transferred.

PUBLIC UTILITIES DEPT.

Public Utility Companies
and
The Investor

By ALBERT H. BICKMORE

FOR the securities of a corporation supplying gas, electric light and power, to be sound, certain conditions favoring safety investment must be assumed; namely, that the franchises be liberal; that the community or communities served have a population of 10,000 or more; that the industrial development of these communities be diversified; that the character of the population be thoroughly established though not necessarily displaying rapid growth; that the company be without competition as to the commodity furnished; and that the operation of the properties be in the hands of men of proved efficiency.

Assuming these fundamental conditions, three classes of securities can best be used in financing: First, bonds, not necessarily first mortgage bonds, which should represent about two-thirds of the reproduction values of the properties; second, preferred stock which should reflect about one-third such reproduction cost; and third, common stock which should evidence a portion of the intangible values, such as franchises, good will and going concern values.

Bonds of this character, if protected by proper restrictions as to issuance for future acquisitions and improvements, represent sound and conservative values, which will remain unimpaired by adverse happenings; the preferred stock being based on real values combines many elements of safety with prospective increase of principal; while the common stock constitutes a semi-speculative security, the value of which will reflect the intangible values and efficiency of management. It is rapidly becoming recognized, that bonds of this type are one of the safest forms of investments available to-day, that the preferred stock is little affected by the customary hazards of business operations and that the common stock possesses speculative qualities of unusual promise.

Bonds

By reproduction values is meant the cost of duplicating the old plant with a new plant, allowance being made for depreciation. Such value comprises not alone the land, brick, machinery, wires, poles, pipes and labor of assembling and construction, but also the cost of surveying, engineering and organization, interest on funds employed during construction, contractors' profits and legal expenses. In an intelligently organized property, well planned and constructed, one set of factors in values is as important as the other. Roughly speaking, the average cost of materials and labor is from 60 per cent. to 75 per cent. of the reproduction or replacement value.

The amount of bonds issued should not exceed 5/8 to 3/4 of the reproduction value. There are several reasons for this ratio of bonds to such value.

1. The amount of bonds is less than the lowest basic cost of the property.
2. The property will always earn enough to provide for maintenance and to pay interest and sinking fund charges on such bonds.
3. Experience has proved that gross mismanagement will not permanently impair the market value of bonds thus limited.

The relation of the amount of bonds

issued to gross and net earnings is more difficult to determine. Large hydro-electric plants and some well situated steam or gas plants selling electric current or gas at wholesale have very low operating and up-keep factors. The ratio of bonds to gross and net earnings in such properties varies greatly and each property must be studied separately.

Properties having distributing systems, however, and doing a general electric light, power or gas business, if such business has been well developed, should seldom have outstanding bonds in excess of five times the gross earnings. Bonds on properties having hydro-electric stations of ample capacity or central steam stations where fuel is particularly cheap, may somewhat exceed this ratio. On the other hand, bonds of properties whose maintenance and operating cost is comparatively heavy should be correspondingly less in amount. Bonds equal to four times the gross earnings make a conservative investment.

Net earnings should be at least 1½ times the interest on outstanding bonds and the issuance of additional bonds for future extensions and improvements should be limited through a mortgage with such provision. Net earnings equivalent to 1¾ times the total bond interest are ample, and net earnings of twice such interest give a very liberal margin to provide for unexpected contingencies, depreciation and dividends on stock.

Bonds having proper relation to reproduction values but issued upon properties partially or wholly undeveloped may be safely purchased, but in such cases the investor should have, through the medium of his investment banker, the opinion of well-known and competent engineers respecting future business. Furthermore, the efficiency and reputation of the management should be carefully considered.

The safety of bonds may also be judged by comparing gross earnings with bond interest. The gross earnings should be at least four times the bond interest, while earnings of five times such bond interest are generous.

If we were asked to put in concrete form these ratios of bond issues to reproduction values and to gross and net earnings, we should proceed as follows:

Assuming that reproduction values are $2,000,000, the earnings and the amount of bonds should be about as follows:

Gross earnings.............	$300,000
Operating expenses.........	180,000
Net earnings.............	$120,000
5 per cent. interest on $1,500,000 bonds.............	75,000
Surplus for depreciation and dividends...........	$45,000

From the viewpoint of safety of principal and interest of bonds these figures are sound, although not an ideal model of bonds and earnings. Properties of a reproduction value of $2,000,000, however, if well developed and well managed, show earnings of $400,000 or more. Such properties can be operated at 60 per cent of gross earnings and, thus bonded, will eventually earn two or more times the interest charges.

In the table given, the difference between the avails or proceeds of the $1,500,000 bonds and the reproduction values, together with the franchise, going concern, good will and managerial efficiency values, should be represented by preferred and common stock. The combined market value of these stocks, which should be from 40 per cent. to 100 per cent. of the par value of the bonds outstanding, depends upon various factors, but particularly upon efficiency of management.

To sum up: First, bonds representing 2/3 reproduction values of lighting properties which have gross earnings of five times the interest charges, and net earnings of twice such charges, fulfill all the requirements of an entirely safe and sound investment; second, bonds equivalent to ¾ reproduction value with a total par value of five times the gross earnings and with interest charges not exceeding 2/3 the net earnings, are protected by sufficient

margins both as to principal and interest; and third, bonds representing 2/3 to ¾ reproduction values of undeveloped properties are proper investments if they are issued upon properties recommended by leading engineers, operated by men of proved ability and offered by one or more investment banking houses of experience and standing.

Preferred Stocks of Lighting Companies should be issued to provide funds to the extent of 25 per cent. to 40 per cent. of the reproduction value of the property, the balance of such value being represented by bonds.

The advantages of Preferred Stock from the viewpoint of the corporation are as follows:

First, it provides a security which does not entail a fixed charge.

Second, it makes the bonds more salable by reason of the equity thus created.

Third, it appeals in part to a different class of investors and in this way broadens the market for all the securities of the corporation.

Stock represents part ownership of the business and property of a corporation; Bonds represent an obligation of that corporation and are secured by a lien on its property. In most corporations having both Bonds and Stock, the Bonds are much more secure than the Stock.

If the aggregate face value of the Preferred Stocks and Bonds exceeds reproduction values only to the extent of a fair discount on these securities to cover the expense of flotation, the preferred stock constitutes a security free from all ordinary hazards of business.

Preferred Stock

Preferred Stocks of this character have a favored position among investments for several reasons:

(a) The income return from Preferred Stock is from 1 per cent. to 2 per cent. more than Bonds.

(b) Such Preferred Stock possesses strong elements of safety.

(c) The prices of Preferred Stocks are likely to rise more rapidly than those of Bonds, because increasing earnings of the properties affect the Stock more directly than the Bonds.

(d) Preferred Stocks are free from taxation in some States and are not subject to the normal Federal Income Tax.

(e) Stocks change hands more frequently than Bonds, resulting in a more active market for these securities.

The Preferred Stocks of Lighting Companies, if properly issued, meet the demand for a security which yields a high income return, which possesses sound intrinsic value, which is reasonably free from business vicissitudes, which has a comparatively active market, and which has possibilities of advance in price.

Common Stock

The property of a Public Utility Company comprises tangible and intangible values. As already stated, corporations of this class are usually financed by means of bonds representing from 60 per cent. to 75 per cent. of the reproduction cost of the physical properties, preferred stock to cover the balance of such cost and frequently a portion of the intangible values, and common stock representing a part, at least, of such intangible values.

These intangible values represented in part by common stock are as real as the reproduction values and consist of the following elements:

(a) Origination value.—The ability, force and power to originate or initiate must receive some kind of compensation. Without these factors first present no movement would result. It is a value and must be reckoned in the total of costs.

(b) Cost of organization is the expense of procuring consents and franchises, of promoting and formulating the enterprise, of organizing the company, of securing capital, and of the many items preliminary to the work of construction. These preliminary steps sometimes require years and frequently represent 15 per cent. to 20 per cent. of the total cost of the enterprise.

(c) Cost of development means the

expense of working up the business. When the plant is constructed and the wheels are ready to turn there comes the cost of getting business. With lighting companies the community must be canvassed, and contract for lighting and power must be made with householders, merchants, manufacturers and municipalities. Not only is this a direct expense but there is also the cost of carrying the investment until the business has developed to the point of profitable operation.

(d) Going concern value while in part the result of origination, organization and development is something more than these elements. It is also the result of experimentation, of adaptation of the business in general to the particular communities served, of the correction of faults in construction or operation, and of the perfection of the business organization.

(e) Franchises are grants of rights of way and of occupancy of the public streets. The courts have held that franchises are values and some States tax them as such.

(f) Good management is an asset. While it is distinctly intangible, superior supervision or management can only be obtained by some form of compensation. The best brains can be enlisted only by prospect of adequate reward. It is a value and provision must be made for its cost.

It is evident that compensation for many of these elements of intangible values can best be made by some security which does not require immediate and customary return. Common stock exactly fills this requirement. Initiative, force, power, persistent endeavor, part of the cost of organization and development, and executive abilities can be paid for in this way without adding to the interest bearing burden of the enterprise during the early years of its establishment and growth.

While the proper use of common stock in the organization and development of the business can be defined, the question as to its usefulness as an investment arises. Common stock has a place among investment securities but there should be no misunderstanding about it proper position.

It is the least stable of the three classes of securities mentioned; adverse conditions of any kind affect it first; it is open to wide fluctuations both as to income and price; its value may be permanently undermined by events which only temporarily influence the preferred stock and bonds.

On the other hand, it has the possibility of large enhancement of value and the likelihood of unusual income return. It also frequently has greater currency of market.

The hazard of common stocks of public utility companies is less than that of other corporations because the various Public Service Commissions recognize with more or less accuracy all elements of value both in authorizing the issuance of securities and in the regulation of rates.

In short, the common stock of Public Utility Companies constitutes what is generally understood by the term "A business man's risk."

Hints for Investors

When a security is legal for savings banks in a state it may mean much for the character of that security or it may mean little. The laws of the various states differ greatly, some being very stringent and some being very lax, with all degrees in between. It is well to inquire what kind of savings banks laws prevail in the particular state under consideration.

When a bond is offered with the statement that no other mortgage debt can be created on the company it is well to consider whether the company cannot load itself down further with short time notes which bear interest just like bonds and which prove a drag on the income account. These notes may be worse than bonds, because they mature soon.

Big Dividends but Little Information for Stockholders

American Light and Traction Company

By PAUL CLAY

AMONG the most popular of all the well known public utility stocks are those of the American Light and Traction Company. The common, now selling around 325, is perhaps the highest priced public utility share on the market, and yet its price shows good stability at this level. The company is a holding concern, controlling its subsidiaries by stock ownership. The principal subsidiaries are the following:

Binghamton Gas Works
Consolidated Gas Company of New Jersey
Grand Rapids Gas Light Company
Detroit City Gas Company
Madison Gas and Electric Company
Muskegon Traction and Lighting Company
St. Croix Power Company
St. Joseph Gas Company
St. Paul Gas Light Company
San Antonio Gas and Electric Company
San Antonio Traction Company
Milwaukee Gas Light Company

These companies have practically no relation to each other, except that they are all controlled by the same holding concern. They operate in a great many different sections, including New York, New Jersey, Michigan, Wisconsin, Missouri, Minnesota and Texas. The reasons for bringing these various companies together under a single control are not physical but financial. They are separately operated and have no physical connection, but, of course, it is an advantage for a small operating company to have behind it a big holding concern capable of taking care of its financial needs.

Of the capital stock of the various subsidiaries, the American Light and Traction Company owns all of that of the Binghamton Gas Works, the Grand Rapids Gas Light Company, the Detroit City Gas Company, the Madison Gas and Electric Company, the Muskegon Traction and Lighting Company, the St. Croix Power Company, The St. Paul Gas Light Company and the Southern Light and Traction Company. The last mentioned concern controls through stock ownership the San Antonio Gas and Electric Company and the San Antonio Traction Company. The parent concern also owns 97 per cent. of the stock of the Consolidated Gas Company of New Jersey and a majority of that of the St. Joseph Gas Company. Through the Western Gas Company, a subsidiary holding concern, the American Light and Traction owns 95 per cent. of the stock of the Milwaukee Gas Light Company.

Thus it appears that this is a holding concern of the complicated type about which the investor cannot get very much really enlightening information.

The net earnings given are the earnings on the stocks of the subsidiary companies, and do not show the net operating income of the subsidiaries themselves—which are the operating companies. Gross earnings are not shown at all, for either the system as a whole or the subsidiaries in particular; and on this account the investor can form no conception as to what is meant by "net earnings."

This phrase is variously used to mean all sorts of things; and where gross earnings and operating expenses are not shown, the investor is left quite in the dark. Sometimes the phrase means what it left of gross earnings after deducting bare operating expenses, not including in the latter repairs, maintenance or depreciation. But sometimes repairs and maintenance are included in operating expenses, while depreciation is not; sometimes all three are included, and sometimes taxes are included in operating expenses in figuring net earnings. Not only are these ordinary

times given a variety of treatments by different companies, but also there are many kinds of irregularities used in figuring net. Some companies have been known to include as a part of earnings an increase in materials or supplies on hand, which ought to be carried in the balance sheet as inventories; and others have been known to pay a portion of operating expenses with borrowed funds, thereby making the net appear larger than it really was. Moreover, all the companies here referred to include only those with honorable men in control, and with untarnished reputations and good banking connections.

In brief, the income account of the American Light and Traction Company, because of the omission of gross earnings and of the various items of expenses, is not at all enlightening. On its face, this account indicates earnings of 30 per cent. on the preferred stock of the parent concern, and 22½ per cent. on the common; but only the management knows what the earnings actually available for dividends really are. In recent years the "surplus for dividends" has generally exceeded the dividends paid by about $2,000,000; but how much of this surplus is literally available for dividends the outsider cannot learn. Perhaps it is all required for repairs, maintenance, depreciation and the like, and perhaps none of it is required. The earnings really available for the common may be 22½ per cent. as indicated on the face of the reports, or they may be 15 per cent., or they may be 10 per cent. or even less. The writer is inclined to believe that they are not less than 15 nor more than 20 per cent.

By way of trying to estimate from the meagre available data what they probably are, let us form some conception of the total gross earnings of the entire system of companies.

One has to go a long way around to arrive at even an estimate in the case of companies which give so little information. Under the heading of "known facts" is here given the yearly output of gas or electricity as stated in recent annual reports or financial manuals; but with the street railway companies the most enlightening figure given is the number of passenger cars, while with the St. Croix Power Co. it is the installed horsepower. These same authorities have given the ranges of the gas prices received, and the estimates of gross are obtained by taking the averages and multiplying by the output; but, of course, in the case of the Grand Rapids Gas Light Co., for example, it would make a vast difference whether the bulk of the output is sold at 50 cents a thousand or at 80 cents.

As to the sales of electric light and power, the investor is still more in the dark. Regarding the San Antonio Gas

Estimated Gross Earnings of Subsidiaries

	Known facts	Gas prices	Indicated gross
Binghamton Gas Works................	215,000 M. cu. ft.	110-90	$215,000
Consolidated Gas Co. of N. J...........	213,030 M. cu. ft.	125-100	234,333
	1,285,275 k.w. hrs.	4½ cts.	57,837
Detroit City Gas Co....................	5,200,000 M. cu. ft.	45-75	3,120,000
Grand Rapids G. Lt. Co................	1,098,999 M. cu. ft.	50-80	714,349
Madison Gas & Elec....................	212,543 M. cu. ft.	115-90	212,543
	7,101,504 k.w. hrs.	4½ cts.	319,557
Muskegon Trac. & Lighting............	52 pass. cars.		400,088
St. Croix Power Co.....................	5,000 h.p.		200,700
St. Joseph Gas Co......................	1,232,205 M. cu. ft.	45	554,492
St. Paul Gas Light Co..................	1,389,000 M. cu. ft.	75-90	1,180,650
San Antonio G. & E. Co................	269,756 M. cu. ft.	70-125	256,268
	19,374,828 k.w. hrs.	4½ cts.	871,867
San Antonio Traction..................	118 pass. cars.		907,892
Milwaukee Gas Light..................	3,500,000 M. cu. ft.	45-75	2,100,000
			$11,345,576

and Electric Co., the reports do state that the prices per kilowatt hour were 12 to 4 cents for lighting, and 5 to 3 cents for power. Here again the question is whether the average price was close to the highest or to the lowest. The presumption is that it is close to the lowest; for the Census bulletin covering the electric light and power stations of the United States for 1912 showed gross income of $302,115,599 and gross output of 11,502,693,006 kilowatt hours. Hence the average receipts per kilowatt hour were 2.63 cents. Still, for the sake of liberality, the receipts throughout the above table have been estimated at 4½ cents.

No valuable information is available regarding the traction companies, and their gross has, therefore, been estimated at $7,694 per passenger car in service. This was the average revenue per car for all street railways in the United States in 1912. The aggregate gross was $585,980,517, and the number of passenger cars in service was 76,162. No account is here taken of the freight and service cars. With the St. Croix Power Co. the gross is estimated at $40.14 per installed horsepower, since this was the average for the United States in 1912. In this way the indicated gross of the whole system as of 1913 is estimated at $11,345,576; and for 1914 probably about 5 per cent. should be added so that the gross for last year may be placed at $11,912,855, or, roughly, $11,900,000.

Coming now to the question of net earnings, the general average proportions of net to gross are 45 per cent. for light and power business, and 41.3 per cent. for street railways business. Applying these figures to the above estimates of gross earnings, it is indicated that the 1913 net earnings of the entire system of companies were about $5,057,114. However, the insufficient information in the company's reports points to a higher figure. The net earnings of the whole system should be at least as great as the interest charges on the subsidiary bonds, plus the net earnings of the parent or holding company; and this total for 1913 was $5,890,000. Which of these two estimates are the more nearly correct one cannot know; for the company figures are unintelligible, since it is not known how net earnings are figured, and the estimate based on the above table is uncertain because the exact prices of gas and electricity are not known.

If the above estimated gross is practically correct, it would seem that the real net must be nearer $5,057,114 than $5,890,000. It will be noted that the big producers of gas in this system are the Detroit City Gas Co. and the Milwaukee Gas Light Co., and that the next largest producers are the Grand Rapids Gas Light Co., the St. Joseph Gas Co. and the St. Paul Gas Light Co. Now, all of these apparently receive moderate or low prices, and it is therefore difficult to see how they could cover expenses with so small a proportion of gross earnings as would be necessary to make such large net earnings. The average price of gas for all concerns in the United States in 1909 was $1.106, as shown by Census reports; but the Detroit City Gas Co. and the Milwaukee Gas Light Co. are said to sell as low as 45 cents.

Making the doubtful assumption that "net earnings," using the phrase in its commonsense meaning, are as large as indicated by deductions from the company figures—the income account for the whole system as of 1914 may be estimated as follows:

Gross earnings	**$11,912,855**
Operating expenses	**6,056,770**
Net after taxes	**5,856,085**
Bond interest	**1,423,705**
Balance for parent company	**4,432,380**
Parent company expenses	**157,293**
Balance for preferred	**4,275,087**
Required for preferred	**854,172**
Balance for common	**3,420,915**
Earned on preferred	**30%**
Earned on common	**22½%**

Assets and liabilities of the subsidiaries are not shown, and therefore nothing is definitely known as to what real values there may be behind the American Light and Traction stocks. Probably the real values are large, because Wall Street has a way of guessing what it does not know. Insiders largely dominate the prices of stocks

with the result that even stocks regarding which absolutely nothing is known usually sell pretty close to their intrinsic values. Still there are sufficiently numerous exceptions to this rule, so that one can never be sure about any one stock, taken individually; and for this reason the stocks, notes or debenture bonds of a company which does not present enlightening income accounts and balance sheets covering itself and all its subsidiaries are never safe investments. They may turn out well, and so may a leap in the dark.

The common stock sells high because since February, 1910, it has been paying 10 per cent. per annum in cash, plus 10 per cent. in stock, making 20 per cent. in all. The present price of about 325, assuming the quotation to be genuine, means that Wall Street puts full faith and credit in the 20 per cent. dividend, and Wall Street is usually right. That is to say, stocks with real values behind them usually sell at prices equivalent to about 17½ times their yearly dividends; and this would mean $348 for this stock. As this dividend is paid half in stock rather than all cash, the difference between the theoretical price of 348 and the actual price of 325 reflects no discredit upon it. One might rather conclude that if the dividends were all cash the selling price would be 360 or more.

Both preferred and common would doubtless be very cheap around par, but they do not look like bargains at present quotations. A summary of the meagre information about the operating properties would indicate that the common has behind it tangible and intangible assets of about $170 per share, and that upon the basis of earning power it should be worth about $200 per share.

The real values behind it then may be estimated between these two figures, and the excess of the market price over these figures may be attributed to the 10 per cent. stock dividends.

Public Utility Inquiries

General Gas & Electric

W. C.—General Gas & Electric Co. (incorporated in Maine in 1912) common stock is nearly worthless, while the preferred is highly speculative. This is due to the fact that after paying the preferred dividend in 1913 there was a deficit, while in 1914 the showing was not much better, there being only $8,497 left over after the preferred dividend. As there is $2,600,000 of this common stock out, you can see what little hope there is for dividends.

American Telephone & Telegraph

S. R.—American Telephone & Telegraph is one of the old established and standard investments. It has good earnings and a big margin of safety.

The telephone business is so dominated by this company that it has a practical monopoly of the field in the United States.

Among utility corporation stocks, this stands in about the same rank as Pennsylvania Railroad stocks stands among the railroads.

The stock is listed on both the New York and Boston Stock Exchanges and is held very largely in New England.

Pacific Gas & Electric

F. M.—Up to June, 1914, the company had outstanding $10,000,000 preferred stock, 6% cumulative, on which the dividend had been paid regularly, and $32,109,000 common stock. The common paid five dividends, of 1¼% each in 1912 and 1913, then the dividends were discontinued in order to build up the sinking fund.

No extraordinary expenditures seem likely to be needed in the early future and no plans for more than the usual amount of extension into new fields are now under consideration. The preferred stock, now selling at about 83, has every appearance of a safe dividend-paying investment.

The common stock selling at 48 has excellent speculative possibilities. The natural stability of public utility earnings—especially demonstrated by this company during the last two years—works especially to the advantage of the common stockholder.

The company has applied to the commission for permission to pay a dividend not exceeding 6% on the common stock. If the permission is granted, it is likely that the dividend may be declared in stock rather than in cash.

Notes on Public Utilities

American Tel. & Tel.—GROSS GAINING at the rate of 5½% in last three months, against 3½% in January and February. Surplus after dividends, $2,701,317 in six months to June 30, against $2,580,300 a year ago. This amount continued through the year would mean 9½% earned on the stock.

American Light & Traction.—REGULAR DIVIDENDS declared and usual extra of 2½ shares of common stock on every 100 shares of common stock.

American Public Service.—EARNINGS have been showing good increases. Gross earnings of subsidiaries for the year ended April 30, 1915, were $502,910, as against $411,775 for the year ended December 31, 1914, while net earnings were $172,198, as compared with $136,905.

American Power & Lt.—GROSS for the year ended May 31 increased $660,605, or 10%, and net gained $386,182, or 13%, over preceding year.

Boston Elevated. — GROSS for June declined $15,000 compared with same month in 1914. For fiscal year ended June earnings totaled $17,785,000, a gain of $155,000.

Brooklyn Rapid Transit.—GROSS for June fell behind last year same month. The quarter ended June 30 was an exceptionally poor one. For its fiscal year ended June 30 gross increased about $956,000.

Cons. Gas E. L. & P. Co., of Balt.—OFFERING to customers of the company common stock at the price of 107½ per share, this stock to be paid for at the rate of $4 per month.

Chicago Railways.—TRAFFIC in the current year has been off from 3% to 4%. Traffic improving, however, and it is expected second half of the year will make better showing than first half.

Consolidated Gas.—EXTRA QUARTERLY DIVIDEND of ½ of 1% said to be in favor with certain interests in the company, which would put the stock on an 8% basis. Earnings for the half year ended June 30 understood to be entirely satisfactory.

Detroit United.—SPECIAL MEETING of the stockholders' July 14 to accept the proposition of the city to take over the lines. The price at which the lines are to come over is to be fixed by the Circuit Court. Expected the question of purchase will be submitted to the voters of Detroit at a special meeting in September.

Edison Co. of Boston.—GROSS EARNINGS for June increased 7.90% while for the fiscal year there was a gain of 6%, making a new high record of $7,429,124.

Kansas City Ry. & Lt.—AMPLE FUNDS available for payment of the July interest on the underlying bonds of the Metropolitan St. Ry., but order of the Court prevents their distribution.

Massachusetts Electric Cos.—GROSS for the year to June 30 decreased $111,000, or 1.14%, while loss in net amounted to about $350,000. This was one of the poorest periods in the history of the company.

Massachusetts Gas.—EARNINGS $1,000 a day over its dividend requirements. Trustees have set aside the required $1,250,000 for 4% dividends on the stock for the year ending June 30, 1916. Expected about 6% will be shown for the year ended June 30 last, against 5.5% last year and 6.07% for the year previous.

Northern States Pr.—LARGE GAINS in earnings shown by this company's subsidiaries, the gain for the year ended May 31 being 16% in gross, 23% in net and of 95% in the balance after fixed charges and preferred dividends over the preceding year.

New York Rys.—LARGER PAYMENT on income bonds expected for the half year ended June 30. Semi-annual declaration for half year ended June 30 expected to be around 1¾%, or $17.50 per bond.

Philadelphia Co.—OPERATING COSTS being kept down as much as possible, so that while the combined earnings show a decrease in gross, net is increased.

Pacific Gas & Electric.—DIVIDEND expected to be declared on $1.50 per share on the preferred stock, at meeting of directors on July 31.

Portland Ry. & Lt.—GROSS EARNINGS for the twelve months ended May 31 decreased $945,508, or 14%, while net earnings decreased $741,710, or 22%, and the surplus after charges was $437,538, a decrease of $845,244, or 66%, from the preceding 12 mos. Part of these decreases due to competition, part to poor business generally, and part to jitneys.

Puget Sound Traction.—DIVIDEND on preferred stock reduced from 1½% quarterly to .75% caused by the competition of jitneys.

So. New England Tel. — CAPITAL STOCK to be increased from $10,000,000 to $20,000,000 for general capital purposes.

Third Avenue.—DIVIDEND action deferred. Matter will be considered by directors at September meeting. Income statement for fiscal year shows surplus of $696,521, an increase of $70,215.

United Ry. of San Fran. — DEMURS from the orders of the Cal. R. R. Com. ordering it to set aside $550,000 annually from income for improvements. Rehearing asked.

United Rys. Balt.—REGULAR DIVIDEND of 1% on common stock paid. Earnings not as badly affected by jitneys as expected.

Western Union.—EARNINGS greatly helped by additional cable business since war began. Feeling that the dividend may be raised to 5%.

RAILWAYS & INDUSTRIALS

The Market Outlook

Foreign Selling—European Bond Issues—The War Stocks

IT is many years since so many and such conflicting influences converged upon the New York stock market. The varying fortunes of the war alone would be enough to create uncertainty about investment valuations. But to this we have added the large, but unknown, profits which many industrial companies are likely to make out of the manufacture of war munitions; the gigantic demands upon capital which are being made by all European nations, resulting in foreign selling of American securities here; the depression in the profits of American railroads caused by rising costs and nearly stationary rates; the varying results of numerous suits pending in the courts against a number of our greatest corporations; and a new banking system just going into operation which has vastly increased the possible credits which might be placed at the service of business, if needed.

When to the above broad outline of the major factors in the situation are added the numerous minor influences, each of which may at times assume a commanding position for the moment, it is not surprising that the stock market presents a sort of maelstrom of conflicting currents which investors find it exceedingly difficult to interpret, and that their efforts to interpret it and act on their interpretations result in erratic price movements and at times in the complete absence of any apparent general tendency.

* * *

WITH the closing of the British loan last week, foreign selling here became much lighter. It would, however, be folly to hope that it is over. The unprecedented demands on the resources of English investors will certainly compel them to realize on their American securities at intervals so long as the war lasts. Doubtless the selling will to some extent come in waves, when requirements become particularly acute; but a still larger part of such selling will be accomplished deliberately and at prices which yield a good price for the securities sold.

* * *

The rate of foreign exchange will thus have a very decided influence on the return of our securities to us, since a fall in the exchange rate is exactly the same thing, so far as the foreign holder is concerned, as a rise in the price of his security. Without doubt this has been one of the main factors in inducing Germany to sell her holdings of our stocks and bonds. The mark exchange rate has been so greatly in favor of the German seller of securities here, that he could in many instances get a profit on standard bonds and other securities ordinarily stable in price, far greater than he could have hoped to get from the fluctuations of the market alone.

* * *

THE exchange rate, in turn, depends on whether England and France succeed in placing any considerable quantity of their bonds on this side. That they will attempt to do so before the war is over goes without saying, for they will endeavor to get capital from every available source. The plan of collecting American stocks and bonds held abroad and using them as collateral for a loan to be placed with our banking institutions looks most feasible. A certain amount of British bonds could be placed here direct, at a sufficiently high rate of interest to make them attractive, but the British Treasury naturally dislikes to pay a higher interest to Americans than it pays to the English investor.

There is constant talk about the placing of $100,000,000 of the new British bonds with American banking institutions, but as yet nothing definite has been accomplished in that direction. The opinion may be hazarded that American private investors as a whole will not take kindly to European bonds under the present somewhat hazardous conditions.

In the meantime, we seem likely to con-

tinue selling to Europe immense quantities of foodstuffs, ammunition and war supplies, so that even if $100,000,000 foreign bonds should be placed here the effect on exchange would probably be only temporary. So far as we can penetrate the future it seems evident that foreign exchange must continue low, with a possibility of much lower rates than have yet been seen. Hence, until we have some new evidence to the contrary, we must assume that foreign selling of our securities will continue at frequent intervals.

New York bond houses estimate that over $100,000,000—probably $150,000,000 of our securities—have been sold back to this country from abroad within the past month. The heaviest selling has been of bonds. Most of these bonds have been taken by institutions or by trustees of estates. Private investors, who feel at liberty to take a slightly more speculative view of the situation, have bought very few. Most such investors believe that an opportunity will be afforded to buy bonds at least as low as current quotations later in the war, or perhaps after the war, when a better idea of the future can be formed than now.

This idea may or may not prove correct. Our own feeling is that good American bonds are not likely to have any severe decline from the present low level of prices, but that on the other hand they cannot be expected to advance much in the face of the extraordinary foreign demands for capital.

* * *

THE outstanding feature in the stock market has been the continued big speculation in war stocks. There is probably no close relation between the prices at which these stocks are now selling and their actual value. Some of them may be selling far above the price that would be warranted by their future earnings; others may be selling too low.

Good profits will doubtless be realized from the large war orders which have been accepted by many companies but there are so many elements entering into the situation—the length of the war, the cost of putting plants in shape to manufacture munitions, how the supplies are to be paid for, where peace will find these companies as regards ability to get and handle domestic business, etc.—that the amount of such profits must be wrapped in mystery for a long time to come.

The principal cause of the sharp advances in these stocks lies entirely outside the companies or their business. It is the irrepressible desire of the public to speculate. Money is easy; idle funds are abundant; certain classes of business men are making good profits; many salaried men are saving money through curtailment of former extravagances; we have not had a genuine bull market since 1909; the public is fairly hungry for the opportunity *to buy something that will go up.*

Under such conditions something is bound to go up. It may be, and usually is, a difficult matter to pick it out beforehand, and there is a good deal of uncertainty about how long it will stay up; but that something will go up is a certainty, because the latent force is there to put it up.

* * *

IT is very little use for financial publications to counsel conservatism to the man who now has fifty points profit in a "war bride." Yet it is a truism to say that when these stocks go down, as many of them finally must, the pools and big capitalists who have been most influential in putting up prices will be found owning comparatively little of the floating supply of stock, while the public will be found owning a great deal of it.

The war stocks are not being bought at current prices as investments. The idea is almost absurd. Each fellow is buying in the hope of selling to some other fellow at a higher price. There always has to be an end to that process. Where it will end is more a question of psychology than of values.

* * *

THE general feeling is that prosperity will gradually spread to other lines not immediately affected by the war. Doubtless we cannot expect as high a degree of prosperity as if it rested on a peace basis, and it may not prove as permanent; but the business of the country as a whole is now clearly on the upgrade, and standard stocks may be expected to reflect this prosperity.

Are Dividends for Erie Common in Sight?

Prospects For Erie

By WILLIAM T. CONNORS

PRESIDENT UNDERWOOD'S recent statement that he intends to stay with Erie until it pays dividends immediately caught the attention of the investment world. About two years ago, when the earnings for the first preferred stock mounted to over 15 per cent. and a liberal balance was shown for the common after the 4 per cent. dividend requirements on the first and second preferred had been deducted, those interested in the property entertained strong hopes that dividends were in sight within a few years.

Those hopes were blasted by the depression of 1913, followed by the war in 1914.

The rate increase granted six months ago was estimated by Erie officials to be worth about $1,000,000 a year to the road—not a large item for a road with the big capitalization of the Erie. If all the increase is carried forward to the balance for dividends, it will amount to about two per cent. on the first preferred stock for the full year. For the fiscal year ended June 30 last, the rate increase probably benefited the first preferred about one per cent.

Why Earnings Fluctuate

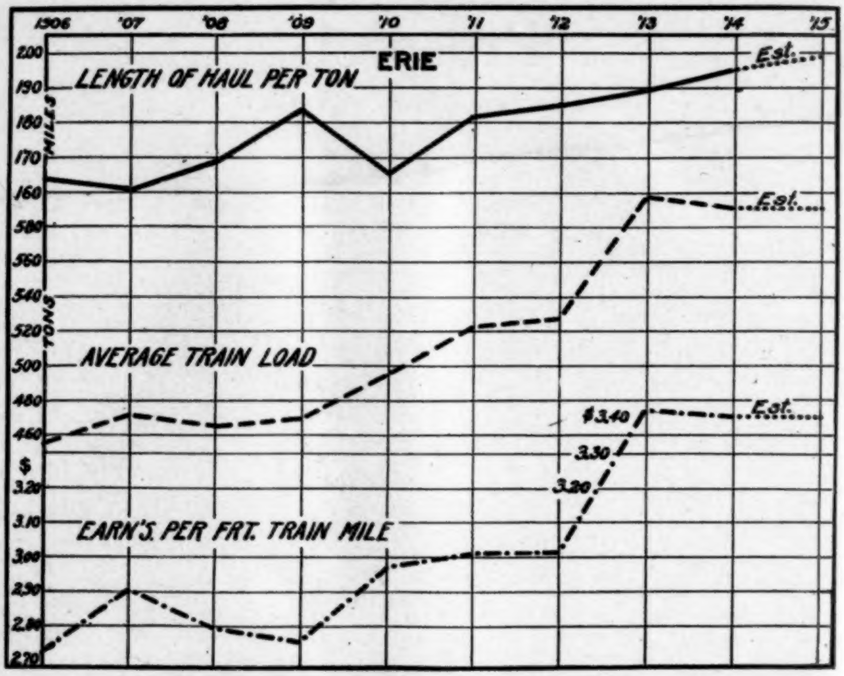
A glance at the small diagram giving the earnings on the first preferred for ten years shows that fluctuations in earnings from year to year are very wide. In 1907 12.3 per cent. was earned; in 1908 the deficit amounted to 3.4 per cent. on the first preferred; by 1913 the per cent earned had risen to 15.3, only to drop to 1.4 in 1914.

The road's heavy bonded indebtedness is the principal cause of these rapid changes. There are now outstanding about $245,000,000 of bonds and notes, while the amount of first preferred stock is only $47,892,000, second preferred $16,000,000, and common $112,378,000. An increase in earnings above the interest requirements on the bonds piles up rapidly on the first and second preferred stocks, and somewhat less rapidly on the common

It is, of course, this heavy burden of bonds, the legacy of past bad management, that has prevented Erie from becoming a profit-making property for many years. Under good management the road is, on the whole, the best freight route from Chicago and the Great Lakes to New York, and handles a tremendous volume of business; but the profits are nearly all absorbed by the bond interest before they reach the stocks.

President Underwood set for himself the task of overcoming this handicap by double-tracking, reducing grades and improving the efficiency of the road in every way. In pursuit of this plan he has applied earnings to building up the property. For the five years, 1910-1914, the average amount applied to maintenance of way was $2,655 per mile against $2,153 for the preceding five years, and maintenance of equipment has been on a similarly liberal scale.

Double-tracking, while it was in progress, interfered somewhat with the movement of traffic, so that earnings were checked at the very time that expenses were especially heavy; but this work is now nearly completed. The road has a double-track line, mostly low-grade, from Jersey City to Chicago, with the exception of about 50 miles; three tracks, Port Jervis to Graham, N. Y.; four tracks, Graham to Newburgh Junction, and four tracks from Suffern to Jersey City. The elimination of the Bergen Hill tunnel a few



years ago, by an expensive open cut, greatly increased the carrying capacity of the road.

A Big Train Load

The second diagram shows in graphic form the results of this policy of improvement. The growth in amount of through business obtained is shown by the increase in the average length of haul per ton from 160 miles in 1907 to 195 miles in 1914. The average train load has risen from 455 tons in 1906 to nearly 600 tons in 1913. The result has been that the average earnings per freight train mile have grown from $2.72 in 1906 to $3.42 in 1913, since which date they have remained about stationary. Probably no road in the country has shown a greater improvement in economy of operation.

This puts the road in a position to handle a much larger business; but for the last two years this larger business has been lacking, owing to general business depression, caused in part by the war.

The feature of the 1914 year was the increase in expenses of operation. Gross earnings fell off only a trifle, 2.6 cents per train mile, but operating expenses rose 12.6 cents per train mile. This was due to two things: First, it is never possible to reduce operating expenses immediately when gross earnings fall off. Some little time is always required to readjust operations to the smaller scale of business. And second, Erie did not cut down maintenance expenses, as is the custom of most roads at such a time, but on the contrary increased maintenance further in the face of the dullness of business. The full crew law also had its part in raising the cost of transportation.

The strength of the road's position lies in the fact that for six years the management, by putting all surplus earnings back into the property, has wrought a physical improvement which puts the road in shape to handle a heavy business economically. It is only a question of time when this big

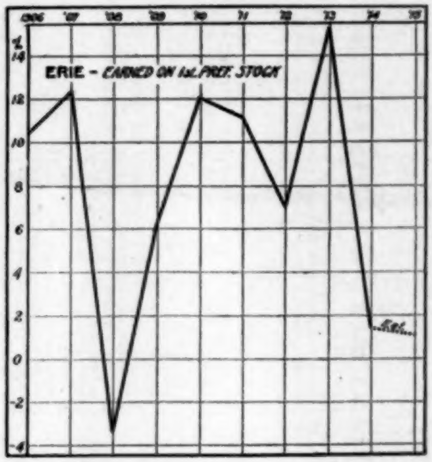
business will appear. That it is on the way is a foregone conclusion.

Change Since 1901

The change in the road since 1901, for example, is most striking. The total amount expended on the property has been approximately $100,000,000. Number of locomotives has increased 35 per cent. and total tractive power 80 per cent.; freight car capacity, 61 per cent; hauling capacity per freight locomotive from 60 cars to 143 cars, or 138 per cent.; hauling capacity per passenger locomotive, 128 per cent. Proportion of gross earnings required to pay fixed charges decreased from 24.3 per cent. in 1901 to 21.7 per cent. in 1914.

The ruling eastbound grade on the Erie is now lower than any other line running east from Pittsburg, Buffalo or the Ohio State line to Jersey City. In 1914 the road handled about $61,000,000 gross business. In its present shape it could probably handle nearly $100,000,000 economically.

That Erie is gradually getting the business is shown by the fact that from



January 1, to October 31, 1914, competitive business from Chicago for all lines decreased 7 per cent., but the Erie's tonnage increased 18 per cent.

In a word, Underwood has been building for the future, and that the future contains dividends for Erie stockholders seems assured.

SEABOARD AIR LINE RAILWAY CO.

Atlanta-Birmingham, First Mortgage 4% Bonds
Due 1933, Yield at Present Price,
About 5.50%

This is an underlying issue of the Seaboard System, secured by a closed first mortgage on the important line to Birmingham, Alabama. The total issue is less than $6,000,000 and is followed by $24,000,000 Refunding Mortgage 4% bonds, by $25,000,000 Adjustment Mortgage 5% bonds and by $62,500,000 capital stock.

For the years ended June 30, 1914 and 1913, the Seaboard Air Line reported as follows:

	1914	1913
Net earnings after taxes and rentals	$6,818,152	$6,642,412
Interest on prior liens, including these bonds	2,647,354	2,673,295
Balance for junior charges	$4,170,798	$3,969,117

This statement shows the very large margin of equity in earnings possessed by these bonds.

The Seaboard, along with other Southern roads, has suffered from the cotton situation as a result of the war. Prior to the outbreak of the war, the South was the one bright spot of the country, and was regarded by many as the most promising field of all for the employment of capital.

The war, however, by placing an embargo on the largest cotton crop ever grown, quickly changed the situation. All indications, nevertheless, point to the fact that this setback is temporary only, and that the worst is over.

The event serves to give investors an opportunity of picking up this bond and those of other Southern roads at bargain prices.

Bargain Indicator Showing Comparative Earnings

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the ten per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand well up in this table, because its price is low compared with latest available earnings.

INTENDING PURCHASERS should read all notes carefully and consult "Investment Digest." We gladly answer all inquiries.

Railroads	Present div. rate.	Div. yield on present price.	Surplus available for dividends, or earnings on par for fiscal year ending on any date during 1909.	1910.	1911.	1912.	1913.	1914.	1915.	Present price.	Earnings last fisc. year on present price.	
Twin City Rapid Transit com	6	6.6	9.9	10.9	11.0	11.3	13.0	12.8	....	91	14.0	
Mo., Kansas & Texas pfd..	0	0	7.2	8.0	13.6	0.1	17.8	0.4	*17.4	14	12.4	Doing better in earnings.
Minneapolis & St. L. pfd..	0	0	—2.4	1.9	1.5	—11.9	7.7	—1.0	*4.0	37	10.8	Soo Line denied deal to take over this road.
Chesapeake & Ohio com...	0	0	6.4	10.0	5.1	6.8	5.2	4.7	*4.0	38	10.5	$15,000,000 earnings to go into property by 1917.
Brooklyn Rapid Transit com	6	6.9	4.2	5.6	6.8	8.3	9.2	8.7	....	87	10.0	Subways will doubtless enlarge earnings eventually.
Lehigh Valley com.........	10	7.0	15.4	23.0	16.5	13.2	16.9	12.5	*13.9	142	9.8	Good margin over dividend this year.
Union Pacific com.........	8	6.1	19.1	19.2	16.6	13.8	15.1	13.2	*12.2	127	9.6	
Atchison, com	6	5.9	12.1	8.9	9.3	8.2	9.5	7.4	*9.4	101	9.3	Est. 9% on common year ended June 30.
Norfolk & Western com...	6	6.8	8.7	11.6	8.9	9.9	10.6	8.9	*9.5	103	9.2	Controlled by Penna.
Baltimore & Ohio com.....	5	6.5	7.1	8.9	6.9	7.6	7.2	4.5	*7.0	77	9.1	Est. 5% earned on com. year ended June 30.
Atlantic Coast Line com...	5	5.0	9.4	12.0	12.8	12.1	12.0	10.7	*8.3	100	8.3	Dividend reduced from 7%.
Minn., St. P. & S. S. M. com	7	6.1	8.8	15.7	5.3	11.1	14.7	7.8	*9.2	114	8.1	Pfd. and com. share above 7%. Contr. by Can. Pac.
Great Northern pfd........	7	6.0	8.3	8.5	8.3	10.3	11.0	8.2	*9.0	116	7.8	Has large equity in C., B. & Q. and Canadian extensions.
Southern Pacific com.....	6	7.2	10.2	13.0	9.6	7.9	9.8	7.5	*6.5	83	7.8	Gov. oil land victory in Calif. doesn't affect.
Delaware & Hudson com..	9	6.1	12.2	12.5	12.3	13.0	14.5	10.8	....	143	7.6	
Canadian Pacific com.....	10	7.0	8.6	16.0	17.3	19.6	19.6	14.5	*10.7	143	7.5	Earnings still poor.
Northern Pacific com.....	7	6.7	10.7	9.0	8.2	7.9	8.7	7.9	*7.7	104	7.4	Large equities in lands and C., B. & Q.
Illinois Central com........	5	4.9	7.4	7.1	10.3	3.2	6.0	7.4	*7.1	103	6.9	Div. reduced from 7%.
Southern pfd	0	0	6.0	9.6	11.1	11.3	11.8	8.1	*3.2	47	6.8	Last div. passed.
Reading com	8	5.4	13.2	16.1	13.8	12.5	22.7	13.4	*10.0	147	6.8	Including betterments. Suit filed against control of Jersey Cen.
Del., Lack. & West. com..	20	4.7	52.8	35.4	31.8	33.2	32.0	28.3	28.3	420	6.7	
Kansas City Southern com.	0	0	3.4	2.2	2.7	0.2	2.7	2.9	*1.6	24	6.7	
Chicago & Northwest. com.	7	5.7	11.4	7.7	8.0	7.1	9.6	7.9	*8.2	123	6.6	Com. div. being earned easily.
Pennsylvania R. R. com..	6	5.7	11.0	9.3	8.6	9.3	8.9	6.8	....	106	6.4	Divs. paid since 1856.
Louisville & Nashville com	5	4.6	14.3	17.3	14.2	15.9	12.7	9.3	*6.5	110	5.9	Contr. by Atlantic Coast. Div. reduced from 7%.
Chicago Gt. Western pfd..	0	0	....	1.2	1.9	0.4	2.8	2.0	*1.7	29	5.9	
Buff., Roch. & Pitts. com..	4	4.7	6.3	7.3	8.0	8.4	10.2	6.0	*4.4	85	5.2	Div. recently reduced from 6%.
N. Y. Central com.........	5	5.8	7.7	6.0	5.7	6.2	5.9	4.0	....	86	4.7	Now consolidated with Lake Shore.
Colorado & Southern com.	0	0	4.9	7.3	5.2	2.6	3.2	0.2	*10.1	26	3.9	Controlled by C., B. & Q. (Hill management).
N. Y., Ont. & West. com..	0	0	2.3	2.3	2.0	0.8	2.1	1.1	*1.0	26	3.8	
Chic., Mil. & St. Paul com	5	6.2	7.2	8.0	7.1	1.6	8.6	6.3	*2.5	81	3.1	Will barely earn div. this year.
Erie 1st pfd..............	0	0	6.1	12.1	11.2	7.0	15.3	1.4	*1.2	40	3.0	Entitled to 4%.
N. Y., N. H. & Hartford com	0	0	7.4	10.3	7.1	8.5	5.0	0	*1.1	58	1.9	Gov't breaking up its control of subsidiaries.
Pitts., C., C. & St. L. com.	0	0	9.8	6.1	7.0	10.9	—2.0	0.9	....	66	1.4	Pfd. and com. share above 5%. Contr. by Penna.
St. Louis, S. W. pfd......	0	0	2.9	4.1	6.1	8.2	9.4	1.7	*0	35	0	
Seaboard Air Line pfd....	0	0	....	....	7.6	3.7	7.3	6.9	*0	33	0	
Missouri Pacific com.......	0	0	1.3	3.3	—6.3	—2.4	1.9	0.1	*0	3	0	Reorganization plan presented.
Earnings on the following are shown before deduction of interest payable on Western Pacific bonds:												
Denver & Rio Grande pfd.	0	0	6.6	8.3	4.7	2.0	4.2	2.8	1.8	8	22.5	Contrs. and finances W. Pac., which doesn't earn fixed charges.

*Estimated.

Industrials

	Present div. rate.	Div. yield on present price.	Surplus available for dividends, or earnings on par for fiscal year ending on any date during 1909.	1910.	1911.	1912.	1913.	1914.	1915.	Present price.	Earnings last fisc. year on present price.	
General Motors com......	0	0	....	....	15.7	17.3	38.8	37.5	....	183	20.5	Stock melon expected soon.
Am. Beet Sugar com......	0	0	7.0	7.3	10.9	13.5	3.9	2.3	8.7	49	17.8	Div. this Spring uncertain. Co. conserving resources.
U. S. Rubber com........	0	0	4.0	7.8	2.2	6.3	9.8	8.0	....	48	16.7	Div. on com, passed to conserve cash.
Bethlehem Steel com......	0	0	—1.6	6.5	6.7	6.9	27.4	30.6	....	187	16.4	
Amer. Agricul. Chem. com	4	8.0	7.5	10.4	9.1	7.3	5.2	7.7	....	50	15.4	Common div. safe. Expected 1915 net to equal 1914.
Am. Malt Corp. pfd.......	2	8.3	6.2	3.0	8.8	9.3	4.6	3.7	....	24	15.4	Divs. in arrears 26%. Stockholders to vote on dismissal of directors.
Central Leather com......	3	7.1	6.3	—2.1	—5.1	8.6	5.2	6.4	....	42	15.2	War orders big.
S. S. Kresge com.........	6	4.4	....	....	....	8.7	14.7	20.4	....	135	15.1	
U. S. Realty & Imp. com..	4	11.4	9.2	9.7	9.4	8.3	9.2	8.2	5.0	35	14.3	Div. resumed Feb. 1.
Inter. Paper pfd..	2	5.6	2.7	4.5	5.3	5.4	4.4	5.1	....	36	14.2	6% cum. div. in arrears 28%.
Union Bag & Paper pfd...	0	0	6.2	5.4	5.5	5.3	1.6	1.7	3.3	24	13.8	
Inter. Harvester (N. J.) com	5	5.2	17.8	14.8	14.2	15.2	14.5	13.4	....	97	13.8	Earned about 10% on common 1914.
Va.-Carolina Chemical com	0	0	7.1	10.4	3.1	3.3	0.5	3.4	....	33	10.3	Pfd. divs. being paid in cash again.
American Can pfd.........	7	6.7	6.7	6.8	7.1	14.2	9.7	10.7	....	105	10.2	Arrears 8¾%. Gov't suit pending. 1915 expected best ever.
Woolworth, F. W., com...	7	6.6	....	....	....	8.9	11.0	10.7	....	106	10.1	
Sears, Roebuck com.......	7	4.8	18.4	20.5	17.0	19.3	21.2	14.5	....	146	9.9	Stock div. 50% com. Mar. 1915.
Corn Products pfd.........	5	6.3	8.2	6.9	7.0	6.8	7.6	7.7	....	80	9.6	1914 profits equal 1913.
Distillers' Securities com..	0	0	2.2	2.3	3.1	1.5	1.2	2.3	....	25	9.4	Sold its holdings including alcohol stock.
North American com.......	5	6.8	6.0	6.2	6.2	7.2	6.7	6.4	....	74	8.6	Controls St. Ry. & Elect. Light Cos. in No'west.
Tenn. Cop. (par $25) com.	12	7.7	6.8	8.9	8.1	21.9	19.3	13.0	....	39	8.3	Doing big business.
National Biscuit com......	7	6.7	7.4	7.7	9.8	10.0	9.6	11.7	9.5	120	7.9	
Utah Copper (par $10) com	30	4.4	29.5	34.6	39.7	53.5	50.7	53.8	....	68	7.9	
American Tel. & Tel. com.	8	6.7	9.0	10.4	10.0	9.3	9.6	9.4	....	121	7.8	Large equities in sub. co. earnings. Will cut construction program greatly.
Western Union com.......	4	5.7	5.8	5.7	5.4	4.0	3.2	5.4	....	70	7.7	Earnings this year will be about 5½% on stock.
Am. Smelting & Refin. com..	4	5.0	7.7	7.1	9.1	10.1	7.5	6.0	....	80	7.5	Doing a big business.
Chino Copper (par $5) com	60	6.5	....	....	....	50.6	70.3	68.8	....	46	7.5	Reg. divs. resumed.
People's Gas. L. & C. com.	8	6.8	8.9	9.0	8.9	7.5	8.2	8.6	....	117	7.4	
Ray Cons. Cop. (par $10) com	15	6.5	....	....	2.1	13.3	18.5	16.5	....	23	7.2	Dividend resumed.
General Electric com......	8	4.7	7.4	16.7	14.5	16.2	12.9	11.1	....	167	6.6	Working high capacity. Big war orders.
Amalgamated Copper com.	2	2.7	2.4	3.9	3.9	4.3	5.8	....	4.8	74	6.5	Controls Anaconda and other Butte and Mexican Mines. Being dissolved. 1915 earns. 16 mos.
Pacific Mail com..........	0	0	—1.7	—1.1	—1.0	—0.1	0.1	1.5	2.4	37	6.5	Expected to dissolve before Dec. 31.
American Linseed pfd.....	0	0	5.8	4.5	2.6	—2.8	3.0	1.8	....	29	6.2	Not doing well. War hurt.
National Lead com........	3	4.8	6.2	4.3	3.6	3.8	3.6	3.7	....	63	5.9	Increase price lead helping.
Pullman com	8	5.1	10.9	11.6	9.3	8.7	9.3	9.0	....	158	5.7	Abnormal amounts charged to depreciation.
Pittsburgh Coal pfd.......	5	5.4	3.0	7.2	5.1	7.5	10.1	5.1	....	92	5.6	Production heavily decreased.
Consol. Gas (N. Y.) com...	6	4.7	6.7	7.4	7.6	7.5	7.2	7.1	....	128	5.5	Sub. cos. have large undistributed surpluses.
General Chemical com.....	6	2.1	14.4	15.6	15.5	14.4	13.4	13.3	....	284	4.9	Has big business account war.
Republic Iron & Steel pfd.	0	0	8.1	11.7	7.8	8.9	12.4	4.1	....	90	4.6	1914 worst year in Co.'s history.
Westinghouse Electric com	4	3.9	....	7.6	12.3	6.2	8.2	10.8	4.7	104	4.5	Large war orders received. Rearranging its finances.
Am. Cotton Oil com.......	0	0	10.4	6.8	—1.2	6.5	3.4	2.0	....	46	4.3	Controls 17 sub.-companies.
Am. Sugar Refining com...	7	7.3	3.9	3.8	9.6	8.7	1.9	4.3	....	109	3.9	Helped by war. In 1914 earned 4¾ on com. bef. dep.
Am. Locomotive com......	0	0	—3.1	1.3	7.3	0.5	17.7	1.3	....	51	2.5	$50,000,000 war orders cause big rise in stock.
Am. Hide & Leather pfd..	0	0	11.2	—5.6	0.8	3.2	3.6	0.8	....	34	2.4	War orders big item.
U. S. Cast Iron Pipe pfd..	0	0	1.2	4.4	3.9	4.2	4.7	—0.5	0.6	40	1.5	Controls 75% of U. S. production.
Sloss-Sheffield com	0	0	6.6	2.0	—0.6	0.8	2.1	0.2	....	37	0.6	Last div. on pfd. in scrip. Cash being saved.
Pressed Steel Car com....	0	0	7.7	5.5	0.1	0.8	10.5	0.1	....	51	0.2	Getting big war orders.
Am. Car & Foundry com..	2	3.5	2.6	6.6	7.1	2.5	4.1	5.5	0.1	57	0.2	Getting war orders.
United States Steel com...	0	0	10.5	12.3	5.9	5.7	11.1	—0.3	....	64	0	Gov't lost suit. May pay 2% or 3% soon.
Am. Steel Foundries com..	2	4.9	0.1	6.1	—1.5	4.6	6.1	—1.4	....	41	0	1914 very poor year. Deficit $575,162.
Railway Steel-Spring com..	0	0	5.3	6.0	0.3	5.8	1.3	—4.2	....	34	0	1914 bad year. Def. after pfd. div.
Colorado Fuel & Iron com.	0	0	2.1	4.0	3.2	4.8	4.6	—3.1	....	34	0	Strike affected Co.'s 1914 earnings badly.
American Woolen com....	0	0	5.2	2.2	2.1	2.1	—19.9	0	....	24	0	Will earn whole 7% div. on pfd. in 1st 6 mos.
Nat. Enam. & Stamp. com.	0	0	1.1	1.0	1.1	—1.6	1.9	—0.3	....	16	0	

Earnings
and
Dividends

Central Leather

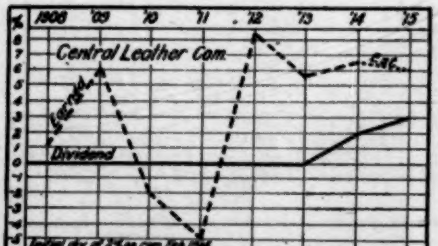
If Central Leather earns about 6% for the common this year, which is the expectation of those who know, there is nothing to prevent the stock from having a very fine appreciation in the bull market that is to be.

An initial dividend of 2% was paid in February, 1914, and in February of this year 3% was paid. From the diagram herewith appended it can be seen just what the company has been doing in the way of earnings on the common stock. The showing of itself is sufficient to justify a higher price on the stock. It is therefore good bull ammunition when the market starts on its upward swing.

The big question that has always agitated the market is how much the directors would pay—not how much they could pay. It is this factor that has kept the market on the guessing bench for several years.

A determined fight by a large group of stockholders finally wrung a little dividend from the directors, but all that they felt should be paid was not forthcoming.

Earnings of the company vary considerably but over the past four years the trend seems to have been steadily upward. It seems as if the company could pay about 4%. If this much were paid it ought to be worth another twelve to fifteen points on the stock.

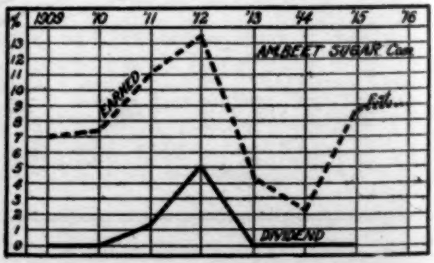


American Beet Sugar

Two years ago investors got such a bad fright on the sugar question that they made a hurried exit from the stocks, among which were the American Beet Sugar issues. The common suffered badly. Touching 77 in 1912, it slid down precipitately over 40 points. Of course, the whole market was making a big slide for the bottom, too, but added to this came the fact that Congress passed a law allowing sugar to come in free in 1916, whereupon all holders of the stock became frightened and there was a scramble for the shore.

Right in the midst of it all along came the European war, which shut off tremendous potential supplies of sugar for some time ahead and straightaway the sugar companies in this country had a veritable picnic for many months, the result of which was that the American Sugar Refining Co. looked as though it would double its net for 1914 while the Beet Sugar Co. also caught the favoring breeze and earned nearly 9 per cent. on its common stock for the year, with the prospect of earning more than that in 1915.

The common stock may or may not get any dividend out of this, yet there is in this situation bullish ammunition enough to add 20 or more points to its market price before it becomes definitely known just what will happen.



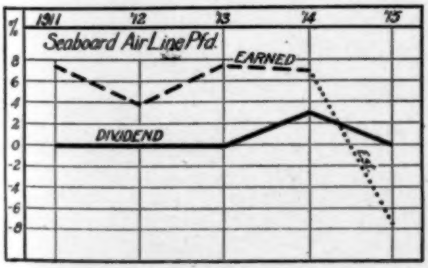
Seaboard Air Line

On a statistical showing two stocks such as the preferred and common of the Seaboard could not look much worse—that is at the moment. Two years ago we said it was a coming property. Up to 1908 the road actually went backward. Then it was put into reorganization. After that, the trend set in in the other direction until the South became tied up in its cotton business due to the war and all the Southern roads took a bad slump in earnings.

In 1908 net earnings were no larger than in 1904 and a surplus had been turned into a deficit. By 1913 the gross had jumped nearly 100% from the 1904 figures and the net over 100% from the 1908 figures. Moreover earnings in 1910 on the preferred stock amounted to 5.08% in 1911 to 6.4%, in 1912 to 2.37% in 1913 to 6.14% and in 1914 as much as 7% while, alas, poor Seaboard in the year ended June 30 it will show a heartbreaking deficit.

Nevertheless the situation is one of the most alluring to the wise investor that exists among the cheaper railroad stocks. Look at the record up to this last year. The trouble this year has been altogether external, not internal. The situation will right itself and the South will ere long be doing a smashing business and the Seaboard will suddenly get into its stride.

With a strong stock market, which is likely to be in motion by that time,



these stocks are likely to have from ten to twenty points appreciation and the preferred may get back some dividend again.

The Seaboard has a good territory and good management. It needs but the improvement of business to get back into its rightful stride.

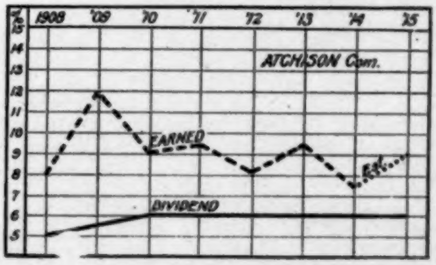
Atchison

Atchison stock selling at about 100, dividend rate 6 per cent., sold as high as 105 in April last, touched 112 in 1912, company to show earnings of about 9 per cent. on the stock for year ending June 30, last year has been one of uninterrupted gains in earnings, big crops ahead to carry, possibly the best operated road in the country, a big working capital, plenty of cash on hand, no pressing obligations—could anyone ask for anything much more favorable on which to buy the stocks or bonds of a company?

This is the story in a nutshell. The income on present price is so attractive and the standing of this stock is such that for the person seeking a high grade investment not exactly a bond, this is the selection. Atchison only occasionally becomes a speculative object. So far has it gone into the conservative investment class of stocks that its fluctuations in price are comparatively small, and it reposes in the strong boxes of investors far and wide, where it stays for long years.

Only unthought-of calamity could reduce the road to a condition where a serious reduction or passing of dividend would be necessary. If the total amount of stock out were not so great the security would be of the Lackawanna class, selling above $500 per share.

Its stock is better from the standpoint of investment worth than any one



of two dozen first mortgage bonds that could be mentioned easily. Among railroad investments it is at the head of the line. And the satisfactory part of it is that the price is within the reach of the small investor who generally does not get, but is entitled to a bit of, appreciation in the price of his investments.

An Analysis of the Four Leaders

The Motor Stocks

General Motors—Studebaker—Maxwell—Willys-Overland

By NORMAN MERRIMAN

IN THE HISTORY of the world no business has shown so marvelous a growth as the automobile industry. In little more than a decade, the business has grown from nothing at all to one of the most important industries of this country. Even the phenomenal growth of the motion picture business cannot begin to be compared with it, in spite of the fact that capital now invested in that business is today measured in millions of dollars, as compared with hundreds, fifteen or twenty years ago. In 1894, Elwood Haynes built the first practical "horseless carriage" seen in this country. For five or six years after this the automobile was little more than a curiosity, and its manufacture on a commercial scale hardly dates back before 1902. According to the most reliable figures available, the total production of the year 1904 amounted to but 21,700 cars, having an estimated value of $30,000,000. In 1914, 515,000 cars, valued at $490,000,000, were manufactured . The value of the product increased 1,630 per cent. in the decade, and the number of cars increased nearly 2400 per cent.

From the above figures it is readily seen that the average price of the car was falling off each year. In the five years from 1909 to 1914 this cutting of prices was very marked. The number of cars produced in this period increasing over 300 per cent., while their value increased less than 100 per cent.—the exact figure being 96 per cent.

The popularization of the automobile is to a great extent due to the steadily decreasing cost. That prices have not yet reached bottom is indicated by the cuts leading companies have announced for the 1916 models. The Willys-Overland Company has announced that the 1916 four cylinder model will retail for $695, as against $850 for the 1915 model. The company has also announced a Knight type motor, which will be priced $1,095. This company has not previously manufactured a Knight-type motor, but the announcement is startling to the public, which had regarded cars of this type unavailable for the man spending less than $3,000 to $4,000 for a car. The Buick Company, which has been selling a five-passenger, four-cylinder car for slightly less than $1,000 now announces that no more four-cylinder cars will be made, but that their place will be taken by six-cylinder cars at approximately the same scale of prices. Similar price reductions have been made by the majority of leading producers. Up-to-date, no change has been announced by the Ford company, but it is probable that a substantial rebate will be distributed to all purchasers, provided sales total more than a certain number.

All these price reductions indicate that we can expect the sales of cars in the coming year to be greater than ever before. What interests the readers of this magazine, however, is, what effect will the cutting of prices have on the earnings of the automobile companies? Will they be able to lower manufacturing and selling costs enough to enable them to earn as much or more on their stocks as they are now doing?

The answer to this question can be told only by time. Certain companies will undoubtedly actually gain, because the price-cutting will lower the selling cost more than the amount of the reduction. Other companies which cut prices in anticipation of an increased demand and consequent savings in both selling and manufacturing costs, may not realize their anticipations. A number of failures among the smaller

producers is practically certain to result, for the large manufacturer will be the one to benefit from the changes.

The most important factor in the ability of the various producers to cut the prices is the decrease in the selling cost. When a company manages to get into the position where a large percentage of its sales is due to the gratuitous advertising of persons already owning the cars, it is obvious that it can either lower the price of the car, or increase its profits materially. The enormous profits of the Ford Company are due to this factor more than to any other. It is noteworthy that the advertising of the Ford Company is smaller in amount than many manufacturers whose production is one-fortieth or one-fiftieth as great. In the case of some manufacturers it is doubtless true that the cost of selling the car alone is twice as great as the retail cost of the Ford car. It is to such companies as these that the cut in prices is likely to spell destruction.

There are comparatively few automobiles getting into the class of the Ford, as far as selling themselves is concerned. It is probable that no car will ever equal the Ford in this respect, and few will ever approach it. Those which can be regarded as in some degree comparable because of the good will attaching to the car are the Overland, the Buick, the Cadillac, the Studebaker. Other cars somewhat behind this class, but which may some day achieve it are the Maxwell, the Reo, the Oakland, and two or three others.

The cars mentioned above are all manufactured by the companies whose securities have attained the greatest prominence and the greatest distribution in the hands of the public. The Overland is manufactured by the Willys-Overland Company, the Studebaker by the Studebaker Corporation, the Maxwell by the Maxwell Motor Company, and the Buick, Cadillac and Oakland by the General Motors Company. The stocks of all four of these companies are listed on the New York Stock Exchange. The stock of the Reo Company, which is also fairly well distributed, is not listed in New York, but is actively dealt in in Detroit.

The table of the gross sales of these companies gives an idea of what a large percentage of all of the automobile business of the country is done by these corporations. It must be remembered that probably 45 per cent. in number, and 30 per cent. in value, of all the cars made in the United States are produced by the Ford Company. In other words, excluding the sales of the Ford Company, these four companies produce close to 60 per cent. of all the care made in the United States. This shows that the automobile business of the country is steadily becoming concentrated in the hands of a few strong companies, for including reasonable estimates of the gross sales of the Ford and Maxwell companies—exact figures are not available—seventy-five per cent. of the cars are made by six companies. The other twenty-five per cent. are made by about 400 companies. That a substantial percentage of these other 400 companies will ultimately either fail or be absorbed by larger companies seems inevitable. The present process of price-cutting will probably not have any important effect or any of the large companies mentioned, for the reason that

Total Sales*

	1911	1912	1913	1914
†All companies in U. S.	328	395	430	490
General Motors Co.	42	64	84	84
Willys-Overland Co.	18	23	30	40
o Studebaker Corporation	..	35	41	43
†Reo Motor Car Co.	7	8	10	14

* In millions of dollars.

† Estimated, exact figures not available.

o Includes company's production of wagons, harness, etc. Automobile production probably 60% of total sales.

their manufacturing is carried on on a sufficiently comprehensive scale to enable them to determine, with a fair degree of accuracy, exactly what the effect of price reductions will mean. Obviously no suicidal step will be taken by any of these companies, all of which are in a reasonably strong financial position.

A factor of no small importance, in the outlook of the leading automobile companies for the coming year, is the European war. This has been of a direct benefit because of the increase in exports of both passenger cars and trucks. While the size of the exports has been considerably over-exaggerated, it has probably been more than sufficient to compensate for the decreased purchasing power of the South and other sections adversely affected by the war. It has, furthermore, been of material benefit to the manufacturers of trucks, as the rise in price of the stocks of the International Motors Company has shown.

Of probably greater benefit, but commented on to a much smaller degree, is the beneficial effect resulting from the increased value of horses and mules. Agents of the English and French Governments are everywhere in the country steadily buying up all the better grades of these animals. It is probably safe to say that the value of the horse has increased at least fifty per cent. since the outbreak of the war. Thousands of owners in rural sections are steadily being tempted to dispose of some of their horses at high prices, and to take the places of these animals, automobiles are being purchased.

It is probable that this factor will become of greater importance as the war goes on, for it is said that the horse has little value after a three or four weeks campaign, and if the present rate of exports of horses is maintained before long, there will be but few fairly high grade horses left in the country.

In view of the fact that we may expect exports of cars to increase, and that the storage of horses acts as an important stimulus to the domestic demand, it is obvious that the outlook for the stocks of the motor companies is good. The generally improving condition of business, together with the satisfactory crop situation, makes it reasonably certain that the domestic demand should be considerably better in 1915 than it was in 1914.

In considering the purchase of any of the motor stocks, however, the following facts must be kept clearly in mind

Comparative Earnings

		1911	1912	1913	1914
General Motors	Net Earnings	*$4,066,251	$4,746,756	$8,184,053	$7,819,968
	% on Common	15.64	17.45	38.90	37.58
Studebaker	Net Earnings	†3,154,345	3,125,876	2,483,134	5,345,395
	% on Common	4.15	4.95	3.12	12.79
Willys-Overland	Net Earnings	......	......	5,882,367	5,864,858
	% on Common	......	......	25.91	26.50
Maxwell	Net Earnings	......	......	......	1,505,467
	% on Common	......	......	......	0.30

* Ten months ended July 31.
† Fifteen months ended March 31, 1912.

First.—The coming prosperity of the industry has already been discounted to some degree.

Second.—General Motors Common, Studebaker Common and Willys-Overland Common are all selling at the highest prices in their history.

Third.—The records of earnings of the majority of leading companies are so short as to leave considerable room for doubt regarding the maintenance of present earning power.

Fourth.—Good-will forms an important part of the capitalization of several leading companies. In some cases there has been considerable over-capitalization of this asset.

Fifth.—Of the four leading companies only one has paid dividends for more than one year on the common stock.

Sixth.—None of the stocks has a thoroughly satisfactory market and on any general break in stocks the

motor issues would therefore be likely to have more than a proportionate decline.

All the above does not mean, however, that there are no opportunities among the motor stocks today. That the dividend record of the various companies mentioned is not substantial is largely due to the fact that they are all comparatively recent consolidations, whose managements have been wise enough to conserve their resources so as to be prepared against any possible falling off in business. The earning power thus far shown has in most instances, been decidedly good and 1915 earnings will probably be better than ever before. That the profits of a well managed automobile company may be enormous is shown by the Reo Company's record, which paid over 1500 per cent. dividends on its original capitalization in the ten years from 1904 to 1914, as well as by the phenomenal growth of the Ford Co.

A few words concerning each of the four stocks listed on the New York Stock Exchange will probably prove of interest in this connection.

General Motors Company

This company was incorporated in the later part of 1908 and acquired practically all of the stocks of twenty-four companies engaged in the manufacture of automobiles, trucks, motors, and parts. The various subsidiary companies manufacture the Buick Cadillac, Oakland, Oldsmobile, Carter-Car, Ranier, Marquette Welch-Detroit, Reliance Truck, Rapid Truck, Randolph Truck and G. M. C. Truck. The capacity of the present plants is approximately 70,000 cars per annum.

Since the first report of the company in 1911, earnings amounting to 109.5 per cent. have been put back into the business and no dividends on the common stock have been paid. It is expected that the earnings for the present fiscal year will be 50 per cent. or over and up-to-date no dividends have been paid. If these earnings are realized, the company will have put back into the business an amount equal to $160 per share on the common stock, in less than five years. Present gossip has it that the company will soon declare a 100 per cent. stock dividend and then place the stock on a 6 to a 10 per cent. dividend basis. If the latter figure is found to be the correct one, the stock will probably sell at considerably higher prices. If the company can continue to gain in earnings as it has during its short existence, or if it can maintain the rate of earnings of the last two years for a few years more it will be ranked as one of the foremost industrial companies of the country. It is to be remembered that, after October 1 of this year, the company will have no bonded debt of any character.

The General Motors Company has a smaller proportionate item of good will in its balance sheet than any of the other three companies mentioned. This item is slightly less than $8,000,000 and the company has a surplus of about $7,000,000. As mentioned above, the good will of two of the cars made by the company is very substantial, so that this item is probably legitimately capitalizable. The book value of the common stock, admitting the value of good will as an asset, amounted to $140 per share on July 31, 1914. At the close of the fiscal year ending July 31, 1915, it will probably be between $180 and $190 per share.

The Studebaker Corporation

The Studebaker Corporation was formed in 1911 as a consolidation of the Studebaker Bros. Manufacturing Co. of South Bend, Ind., and the Everitt-Metzger-Flanders Co. of Detroit. The Studebaker Bros. Mfg. Co. had been in business more than half a century and were the best known makers of carriages and wagons in the central and western United States. In 1910 the company produced over 100,000 miscellaneous vehicles and also made a considerable amount of harness. The long and excellent record of the Studebaker Bros. Co., had built up for the company an almost invaluable trade name. When this trade name became attached to a moderate priced automobile, there was at once a great demand for the car. Consequently, while the

common stock of the company represents little but good will (which is capitalized at nearly $20,000,000) it is entitled to a fairly substantial rating and it is probable that the present 5 per cent. dividend can not only be maintained, but that before long it will be increased.

Willys-Overland

The corporation was incorporated in 1912, but it is in reality a successor to a company which started business in 1908. Its growth has been phenomenal as can be seen by the fact that in 1907-8 only 323 cars were made. In 1908-9, 3,081 cars were finished. By 1913-14 this number had grown to 44,654 for the fiscal year 1915-16 the company is said to be planning to produce 100,000 cars.

The company has $25,000,000 common stock outstanding and about $5,000,000 preferred stock. Good will is capitalized at about $14,000,000. This was undoubtedly a heavy over valuation at the time that the company was formed in 1912, but the company is now in a position where this item is nearly, if not entirely, justifiable. On December 31, 1914, the company showed a book value of $138 per share on the common stock, admitting the value of good will as an asset. The preferred stock can be regarded as a substantial investment issue, on account of the small volume outstanding. The common stock, on account of the large earning power of the company, is likely to receive a greater dividend than the 6 per cent. rate now in force.

Maxwell

The Maxwell Motor Co. was the outcome of the re-organized United States Motor Co., which went into a receiver's hand in 1911. The company has outstanding about $12,000,000 1st preferred, $10,000,000 2nd preferred and nearly $13,000,000 common. The latest balance sheet shows a book value of about $82 per share on the first preferred stock, not making any allowance for good will. As the company's good will was hardly worth considering as an asset at the time of its formation, it is obvious that the common and second preferred stocks represent little but capitalized earning power. As the company makes no statement of its income, other than net income, it is almost impossible to judge of its future with any degree of accuracy. The common stock is highly speculative, and only 0.30 per cent. was earned for the last fiscal year. Earnings for the present year are reported to be at the rate of about 12 per cent. on the common, but this is only current gossip. The common stock had a rise from a low of about $1 last summer to $58 in April. In the break this May the stock reacted to about 30, thus showing the danger of speculation in stocks of this character. That the company is steadily getting into a stronger position, and that its product is becoming more popular daily, is undeniable. Nevertheless both common and preferred stocks represent nothing but good-will of a questionable value, and at present prices they can be regarded only as dangerous speculations.

THE investor for profits tries to select a security that will grow, while the investor for income endeavors to choose one that will not shrink.

INVESTMENT DIGEST

RAILROADS

Atchison.—EARNINGS sufficient for the 6% dividend and $6,000,000 to devote to improvements. Crops good and coast travel heavy.

Atlantic Coast Line.—SURPLUS for dividends for year ended June 30 expected to show over $3,000,000 behind 1914 year. The Co. has fully earned its 5% dividend with a small margin to spare.

Balt. & Ohio.—SURPLUS after payment of the regular 5% dividend for the year shows, according to preliminary statement, about $635,632. Surplus after charges amounted to $10,587,462, an increase of $1,386,896.

Buff., Roch. & Pitts.—ESTIMATED EARNINGS indicate gross for year decrease of $1,360,000, or 12%, compared with preceding year, but this was in excess of gross for any of the past three years. Safe margin earned over full dividend requirements.

Boston & Maine.—REORGANIZATION apparently much delayed. Notes mature September 2, by which time it was hoped something could be done. Annual figures expected to show a substantial loss after fixed charges.

Chesa. & Ohio.—EARNINGS will show approximately 4% earned and available for the common stock for the fiscal year ended June 30 last.

Chic., Mil. & St. Paul.—CROP PROSPECTS very excellent. Co. did not earn its full dividend for year.

Great Northern.—GROSS REVENUES decreased for year ended June 30 almost $10,000,000, or over 13%, yet net was ahead of last year, due to the great economies and cutting down of operating expenses. Surplus for dividend about the same as last year.

Lehigh Valley.—ESTIMATED EARNINGS show about 12% earned for the stock, which pays 10%. Getting big traffic from heavy steel business due to war orders.

Missouri Pacific.—REORGANIZATION PLAN published, which assesses stockholders $50 per share and makes various adjustments with bondholders. Believed the plan will be accepted by the large majority of security holders.

New York Central.—EARNINGS now running at a rate sufficient to show 7% on the stock for the coming year. Figures for year ended June 30 last expected to show upwards of 5%.

New Haven.—EARNINGS available for dividends in year ended June 30, 1915, will be about ½% on the stock. Net earnings during the year gained in round figures about $1,500,000, in spite of heavy loss of traffic due to general conditions.

Reading.—SUIT against the company in the so-called coal trust suit dismissed by the Federal Court. It was found the company had not violated the Commodity Clause of the Hepburn Bill.

St. Louis, San Fran.—REORGANIZATION PLAN expected to be presented in about two weeks. In 11 mos. ended May 31 'Frisco gained over $1,000,000 in net, despite a loss of nearly $2,000,000 in gross.

INDUSTRIALS

Aetna Explosives.—PROFITS expected to run more than $300 per share when the complete plant is working on war orders. Estimated that the company has five years' business on its books.

Allis-Chalmers. — CURRENT YEAR should be the best since reorganization. Business now on the books will keep company working for months. Company supposed to have between $10,000,000 and $15,000,000 war orders, and doing considerably owing to the high price of metals.

American Can.—WAR ORDERS, now estimated to be about $90,000,000. Business for the last half of the year expected to run higher than any similar period in history of the company. Gross business far in excess of last year.

American Car & Foundry.—ANNUAL REPORT shows less than 1 per cent. on the common stock for the year ended April 30, 1915, as compared with 5½ per cent. in 1914, 4 per cent. in 1913, 2½ per cent. in 1912, and 7 per cent. in 1911. Turn in the iron and steel business and equipment market should very favorably affect the company.

American Coal Products.—EARNINGS at the rate of 45 per cent. on its stock. Company may, as a result of present activities, go into more varied lines after war is over.

American Ice. — DIVIDEND unlikely. Cool weather has affected the business of the company considerably. Understood May profits were only little better than last year, and June just about broke even. Additional prices do not seem to overcome poorer business.

American Locomotive. — YEAR ended June 30 last worst ever experienced by the company. Coming year began auspiciously. Orders on hand beginning of year believed to be about $40,000,000 against $4,162,256 last year. War orders not expected to be put through on large scale until October.

American Malt Corp.—SPECIAL MEETING to be held September 22nd to vote on the question of removing the whole Board of Directors. Circulars will probably be issued, advising stockholders of the details of the controversy.

American Smelting & Refining.—ADDI-

TIONAL PLANTS of the company have started operations in Mexico, making three in all, which will add largely to the earnings of the company. Business running so large that if company were able to operate all Mexican plants surplus after dividends on preferred would be close to 25 per cent. on the common stock.

American Sugar Ref.—EARNINGS expected to show between 11 per cent. and 12 per cent. on the stock as a result of a large business and good prices, and also as a result of larger income to be received from its holdings of beet sugar stocks.

American Woolen.—DOMESTIC BUSINESS not running very heavy, but company enjoying a good business in war orders. Understood that business is in most flourishing condition of years.

American Writing Paper.—DEFAULTED on the interest due July 1st on its outstanding $13,064,000 5 per cent. first mortgage bonds due 1919.

Baldwin Locomotive. — TOTAL BUSINESS of the company, including all war orders, said to be about $100,000,000, and with additional orders expected to be placed will amount to $160,000,000.

Case, J. I., Threshing Machine Co.—SALES show gain of 30 per cent. for first half of year of 1915. Continuation of this rate would mean a gross business of about $16,000,000 for the year.

Central Leather.—SALES in June largest of any in the company's history. Expected company's quarterly statement for June will show profits equal to last year or a balance for dividends of $1,000,000. June quarter expected to show profits at rate of from 5 per cent. to 6 per cent.

Cramp Shipbuilding. — EARNINGS for year ended April 30 were $956,796 compared with $1,180,332 for the year previous. Expected that the current year will show earnings of 20 per cent. on stock against 10 per cent. for last year. No truth in fact that Cramp Co. would be controlled by Atlantic, Gulf & West Indies Co.

Crucible Steel. — CONSTRUCTING an enormous plant at Harrison, N. J., to handle the large amount of war business, said to be $100,000,000, it has on hand. Making all kinds of such material in the way of shells, guns, etc. Also has a large amount of U. S. Navy work on hand.

Cuban American Sugar.—FISCAL YEAR ending September 30th expected to show 60 per cent. available for the common stock. The large earnings are the result of Germany's elimination from the sugar market. Company will get into much stronger position as a result of this spurt of good business.

Electric Boat.—CONTROLLING interest in the stock has changed hands, and most of the stock has been put into a voting trust to insure no change of management for several years. Dividend of 8 per cent. declared on preferred stock and 4 per cent. on common for the preceding year, and also a dividend of 8 per cent. on the preferred and 8 per cent. on the common out of 1915 earnings, payable October 1, 1915.

General Chemical.—UNUSUAL degree of prosperity being enjoyed as a result of extraordinary demand for chemicals. Company is working on this business in connection with the American Coal Products Co. and others.

General Electric.—CONTROL of the International Steam Pump Co. expected to be exercised indirectly by the entrance of G. E. interests into the pump company board. Pump company has war orders, which were received apparently from G. E. Co.

General Motors. — DIRECTORS meet July 20, when it is expected action will be taken on the dividends. Estimated earnings running well over $50 per share for the common.

Goodrich, B. F., Co.—EARNINGS running at the rate of 12 per cent. on the common stock. Not expected that any dividend will be declared at meeting July 28th.

Goodyear Tire & Rubber.—OUTPUT of tires expected to be shortly in the neighborhood of 20,000 daily.

Guggenheim Exploration.—EXTRA DISTRIBUTION for stockholders, in view of large earnings of the company held in abeyance.

International Ag. Corp. — FIXED CHARGES, believed to have been earned in year to June 30th. Had rather hard time of it, however.

International Motors.—EARNINGS said to be running high as a result of war orders. Estimated by interests connected with the company that for the 12 months ending December 31 next earnings will be $700,000 or 20 per cent. on preferred stock.

International Nickel. — INCREASED DIVIDENDS to the amount of 5 per cent. rumored for the common stock at meeting of directors next meeting in August. Earned enough in the month of April alone to pay a full year's dividends on preferred.

International Steam Pump.—WAR ORDERS believed to have been received amount to $13,000,000. General Electric interests will enter Board and exercise a friendly control. Final plans of reorganization approved and expected to be sent to stockholders second week in July.

Lackawanna Steel.—SURPLUS of $250,-000 estimated for first quarter. Earned $300,000 net in May and June. Expects $100,000 net monthly from its benzol plant.

Pond Creek Coal Co. — INTEREST CHARGES not quite earned in first half of year, but from showing of earnings in July thus far this month promises to be best of year. Expected to do a much better business later on.

Rumely Co.—AFFAIRS of the company being pushed along as rapidly as possible in the matter of reorganization. Expected much economy will result from disposal of several outside plants and concentrating manufacture in La Porte, Ind.

Savage Arms.—ORDERS calling for its entire production for 1916 are on the books. Stock being put into voting trust. Believed negotiations are on for control of the company by larger manufacturers.

Sears-Roebuck.—SALES for June were $7,682,029, a gain of $1,589,929 over June, 1914. For the half year gross sales were $53,097,722, a gain of $5,196,710.

Standard Motor Cons. Co.—ORDERS received up to a few weeks ago are sufficient to keep plants running night and day for nine months. Profits this year will be by far the greatest ever made. Indicated profits in fair years past have been about 4 per cent on the stock.

Stewart-Warner Speedometer. — ANNOUNCEMENT expected of a new electric starter to sell for $35. Stewart Speedometers will be used on all Overland cars next season. Output of Overlands expected to reach 100,000.

Studebaker.—WAR ORDERS believed to exceed $20,000,000, and the company is believed to be earning over 20 per cent. on the common stock.

United Fruit.—NET in June more than $1,000,000. This is the third successive month of net profits of $1,000,000 that the company has had.

United States Ind. Alcohol.—CONTROL of the company believed to have passed into the hands of the Rockefeller interests. Early in June the Distillers Sec. Co. sold its majority control of this company.

United States Lt. & Ht. Co.—STOCKHOLDERS' protective committee bought in the assets of this concern at Receivers sale in Buffalo for $1,000,000.

United States Rubber. — DIVIDEND passed on common. Explanation of management was that it wished to conserve cash and reduce floating debt.

United States Smelting.—PURCHASING three smelting plants in Kansas to enter the field in zinc. This influenced directors to postpone resumption of dividends on the common stock. This will enable it to treat certain ores of its own which have not previously been utilized.

United States Steel.—UNFILLED TONNAGE jumped in June from 4,264,598, in may to 4,678,196. Company operating at almost full capacity.

Westinghouse Electric. — JUNE PROFITS were at the rate of 15 per cent. on the common. Company understood negotiating for Savage Arms Co. Conversion plan for security holders declared operative.

Willys-Overland. — PRODUCTION running 350 to 375 cars per day. New Knight motored car will sell for $1,095.

Woolworth, F. W.—GROSS SALES in June were $5,787,207, compared with $5,474,-790 in June, 1914, and for the six months ended June 30 were $32,200,061 against $30,-615,702 a year ago.

Market Statistics

	Dow Jones Averages		50 Stocks			Breadth
	12 Industrials	20 Railroads	High	Low	Total Sales	(No. issues)
Thursday, July 1	89.84	92.55	70.47	69.87	252,100	131
Friday, " 2	89.52	92.03	70.62	69.69	334,200	139
Saturday, " 3	89.11	91.88	69.87	69.25	187,100	124
Tuesday, " 6	89.52	91.81	70.32	69.58	234,400	129
Wednesday, " 7	88.62	90.51	69.40	67.96	535,700	164
Thursday, " 8	88.34	89.48	68.71	67.77	340,400	160
Friday, " 9	87.27	88.66	68.35	67.12	365,600	156
Saturday, " 10	88.02	89.51	67.76	66.96	208,500	133
Monday, " 12	90.05	90.64	69.25	67.26	495,100	144
Tuesday, " 13	90.73	90.50	70.15	68.96	603,100	159
Wednesday, " 14	91.29	90.43	70.18	69.24	469,100	145

Investment Inquiries

NOTE.—Answers as published in this magazine are selected and condensed from the very large number of inquiries received from our readers. All such letters are answered by mail in advance of publication, hence stamped and self-addressed envelopes should accompany them. Subscribers' inquiries are given the preference in order of answering.

Municipal Bonds

Investment in Municipal Bonds is exceedingly simple, says the New First National Bank of Columbus, Ohio. There are no confusing details—no risk to run, no trouble or expense in collecting principal or interest. You are safeguarded every step of the way. The selection is purely a matter of amount, maturity and income. This bank is issuing a well selected list of governments, municipal and general market bonds, together with a booklet, "Bonds of Our Country," which will be of great help to both the inexperienced and practiced investor. It will be sent gratis on mention of THE MAGAZINE OF WALL STREET.

International Mercantile Marine 4½s

Do you consider Int. Mercantile Marine 4½s selling around 56 a good purchase.—Mrs. A. L.

We do not consider International Mercantile Marine 4½s a suitable bond for you. The company is in a poor state of finances, and is in Receivership. Lately its earnings were a little better, and both the stocks and bonds were "boosted" somewhat. They are likely to have relapses just as easily, and furthermore, when the company is reorganized no one can tell just now what will be the fate of these bonds.

Depositing C. & E. I. Bonds—C. R. I. & P. Reorganization

F. R.—We would advise you to hold your Chicago & Eastern Illinois bonds a while longer to see if anything special develops in the situation. You have plenty of time to get into the plan. There seems to be no definite advice to give at the moment. Even after the set day as the last chance to deposit, they generally extend the time.

No reorganization plan has been advanced for C. R. I. & P. The bonds of this road should have a very good position in any plan. The company is doing better on earnings than it has done for a long time, and apparently should not have been thrown into receivership. This latter question being still in the courts and the position of your bonds reasonably good, you should come out ultimately with no loss.

Position of Un. R. R. of S. F. 4s

What are the apparent prospects for a rise in United Railroads of San Francisco 4s 1927; also C. & O. R. R. Convertible 4½s 1930?—L. T.

United R. R. of San Francisco 4s 1927 should be benefitted by the Exposition business in that city, and also over the coming months the bond market should improve, carrying them along with it. They have been considerably depressed in recent months, but inasmuch as the San Francisco railroads are pulling steadily out of their unfortunate position, brought about largely by the earthquake, the bonds ought to be in a better position in a few months.

Profit in C. & O. Convertibles

Chesapeake & Ohio convertible 4½s of 1930 are of that class of bonds that are subject to the vagaries of the stock market, even though they are a definite obligation of the road, and because they are not a mortgage obligation they fluctuate greatly. It is the weak showing that the Chesapeake has made that keeps the bonds down. They have not a great margin of safety, but as the road is being compelled to put back considerable of its earnings into the property, the fundamental position of the bonds should improve, and if we have a big stock market, we look for a substantial appreciation in these bonds.

Col. Ind. 5s Reasonably Safe

J. A. E.—Colorado Industrial 5% bonds are a semi investment security. They are not conservative in the sense that term is usually used, although we believe their interest is safe.

About Buying S. A. L. Adj. 5s

A. R.—You may feel reasonably assured in purchasing Seaboard Adjustment 5 per cent. bonds. They are exactly what you say—a business man's investment. Not only is their interest fairly safe, but they are likely to have a good appreciation in the market in the future. In the ten months ended April 30, the company's net earnings fell off about $1,370,000, which is responsible for their low quotation. The peculiar conditions in the South have hit the Seaboard quite seriously during the past year, but we believe that will all pass away before any serious condition develops.

This is an income bond—that is, interest is paid only as earnings warrant, but the indenture provides a cumulative feature in that if the company does not pay when due, it must be made up out of future earnings.

Seaboard is in splendid physical condition, enjoys good management, and is a railroad with a future. The present condition is only temporary.

Baltimore & Ohio Bonds

F. R.—All bonds of the Baltimore & Ohio may be regarded as safe. The total fixed charges of the company consume only about 65 per cent. of net earnings, which is a conservative ratio. Furthermore, net earnings in

the current year are higher than last year, and lately the road's earnings have been showing marked improvement.

Erie Convertibles, Series "A"

I would like to have you advise me where the series A Erie Convertible bonds stand as the convertibility has ceased. I suppose it remains a lien on the property and all the bonds lose is their speculative value in the convertibility of same.—P. K.

You are correct in your assumption that the disappearance of the conversion privilege does not affect the lien position of Erie Convertibles series "A," and that what has gone is the speculative element, so far as conversion is concerned.

Seaboard

W. O.—We would advise the purchase of Seaboard Air Line preferred (35) for a pull, but not on a margin of $10. Possibly that would be sufficient, but it would not be conservative. It ought to be $15 at least. We suggest Erie among the cheap stocks, and also Kansas City Southern, either of which should in time show you a substantial profit.

Cincinnati Traction

B. F.—Cincinnati Traction stock is weak because the earnings of the electric lines in that city have been going down due to general conditions and to the fact that a readjustment of price is expected in another few months when the extension of franchises is brought up again. Apparently timid holders of the securities have deemed these two conditions sufficient reason for selling out the stock.

With declining earnings, it may be assumed that the city authorities will not set about making a drastic cut in fares, thus making a poor condition worse. There is a valuation now being made on which this fare question is to be settled.

Pay-As-You-Enter

R. L.—Pay-As-You-Enter Car Corp. stock is not a conservative investment. It has considerable of the speculative element about it, the company suffering and prospering pretty much with the ups and downs of the equipment business. The business is founded upon patent rights largely, which is usually a speculative basis, so you may expect the business to have a varied fortune. We could not attempt to predict its future, except in this general way.

Stock Pledged Without Indorsement

R. J. L.—As we understand your letter, your friend's stock has been placed in your hands as a pledge for a loan, but without indorsement by him, so that it still stands in his name. If this is the case, you could not sell the stock until it was indorsed by him.

The only use you could make of it would be to hold it as a pledge until he pays you what he owes you. We do not think there is any way that you could force immediate payment from him without a law-suit.

On the other hand, there is no way for him to get his stock certificates back from you unless he pays you what he owes you, or else takes the matter into a court of law; and the latter action would not enable him to get the certificate back until he paid the debt.

If you desire to enforce immediate collection of the amount due you, your best course is to place the matter in a lawyer's hands.

Kansas City, Mexico and Orient

F. G.—Kansas City Mexico & Orient affairs are in much of a tangle still. There is no plan of reorganization at present and none likely for a long time. Charles H. Jones, 20 Broad street, New York, is a director of the company, and can give you the latest authentic information as to the progress of the company's affairs.

Norfolk Southern

T. B.—Norfolk Southern shows net earnings for the ten months ended April 30, of $782,640 against $919,610 last year—same period— a loss of approximately $137,000 over this time. This is a serious decline, and worse yet when you consider that the company did not earn its fixed charges in the year ended June 30, 1914. You can see from this the stock is a poor proposition.

Crex Carpet

J. L.—The gross earnings of Crex Carpet for the year ended Dec. 31, last, were the smallest since 1908, the first year the reports were made public, while the net earnings and surplus also made a new low record. Dividends at the rate of 6 per cent. per annum were paid on the stock since 1910, but they were suspended in the middle of 1914. Officials of the company give no definite explanation for the great slump in earnings, except that of poor general business.

It is difficult to know what to say as to disposition of your stock. We are inclined to think you should hold on for better times.

Beet Sugar

D. B.—Would hold American Beet Sugar common (50) for higher prices. The company earned about 8¼ per cent. on its common in its last fiscal year, and bids fair to earn more this current year.

Ontario & Western

G.—N. Y., Ontario & Western for the ten months ended April 30, shows the small increase in net earnings of about $160,000, which as you will see is not enough to justify dividends. The figures are eloquent, and express our opinion. Every now and then some rumor comes up about the road being taken over by this or that company. There is nothing known about any large road negotiating for control.

MINING AND OIL DEPT.

A Copper Stock Deserving of Attention

Chile Copper

Owner of the Largest Known Copper Deposit—Prospects for the Stock

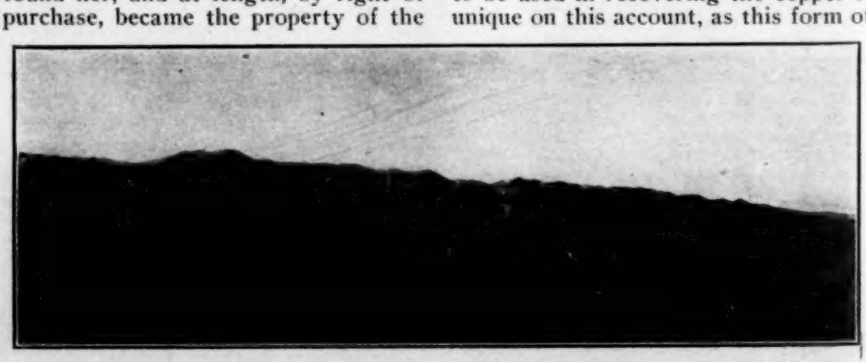
By C. S. BURTON

IF the reader can sometime go into the Museum of Natural History in Central Park West at Seventy-seventh street, New York, he will find among the exhibits the figure of a little Indian girl with a basket on her arm. The legend explains that this body, once flesh and blood, but turned to stone centuries ago, was found in an "antigua" in the province of Antofogasta, in Chile, S. A. The "antigua," or ancient mine working, is now the scene of the operations of the Chile Copper Company, the local name for the property is the Chuquicamata. The other day, the writer of this article had the pleasure of lunching with one of the principal figures in Chilean mining circles, Don Marco Chiapponi, through whom the Guggenheims first became interested in the Chuquicamata; it was Don Marco, who, in his earlier explorations of old mines, found the little Indian maiden, who so many years before had lost her way in some of the old tunnels or drifts. The child traveled all over Europe after Don Marco found her, and at length, by right of purchase, became the property of the Museum of Natural History in New York.

The Chile Copper Company is taking ore from the largest known copper deposit in the world. There is no way to avoid the use of superlatives. Three hundred and three million and three hundred thousand tons of ore, with a possibility of rounding it out into 400,000,000 tons, with an average of forty pounds of copper in each ton, is the estimate of Mr. Pope Yeatman, head of the Guggenheim staff. The capping overlaying the ore is light, and as with Chino and Utah copper, the mining will be done by steam shovels.

When the present plans are completed the ore will be sent to the mill at the rate of 30,000 tons per day, and the copper outturn will be 360,000,000 pounds per annum, more than is now produced by the entire camp of Butte and twice as much as Utah, which is the largest single producer in the world.

The ore is blue vitriol, which is a form of sulphate of copper, so called from its glassy appearance; the process to be used in recovering the copper is unique on this account, as this form of



Outcrop of deposit shown by dotted line.

copper ore can be leached and the copper recovered without any smelting, permitting the saving of 90 per cent. of the metal and at an exceedingly low cost; the first unit of the mill treating 10,000 tons per day is expected to make copper at 6 cents per pound delivered in the United States or in Europe. Operations now are at the rate of about three thousand tons per day, but the full capacity of the first unit of 10,000 tons will be reached by January 1, 1916.

The company has a capital stock of $110,000,000, of which $15,000,000 is reserved in the treasury against the conversion privilege of a like amount of 7 per cent. convertible bonds, which mature in 1923, and which may be turned into stock at par, at any time up to maturity. Earnings are computed, with the present 10,000 ton plant, at $2 per share on 13c copper; $2.29 on 14c copper; $2.58 on 15c copper; with the metal at 18c, earnings would be $3.45 per share. Working out the results when the larger plans are completed, we have earnings of $6.01 per share on 13c copper; $6.87 on 14c copper; $7.73 with the metal at 15c; while taking present prices, say 18c again, we have net earnings per share of $10.31. This figure would be equivalent to practically 50 per cent. upon the present market price of the stock.

It will probably take the greater part of five years to bring production up to the full 360,000,000 pounds per year, and already there are skeptical individuals who may be heard to say, "What are they going to do with all the copper after they get it?" We have seen production of copper grow by leaps and bounds; in 1895, twenty years ago, the United States produced just one-half of the world's copper, 380,500,000 pounds, just a little more than is expected to be turned out each year from the Chile, yet the world's uses for copper have grown even faster, and to-day there are no men so confident of the future of the metal as the producers themselves, and they back their judgment by pouring out their millions, as they have in this instance.

For construction and equipment of the Chile there has already been expended $12,000,000 in the bringing of water 40 miles through a 12-inch pipe line from a branch of the Loa River; in the construction of railways between the mine and the mill and from the mill to main line of railway running to Antofagasta. The plant located up in the Andes nine thousand feet above sea level, differs from the huge mining plants in this country in that neither concentrator nor smelter is required. Instead there are huge leaching tanks—concrete vats, six in number— holding each 10,000 tons of ore, where the ore is treated with dilute sulphuric acid solution. When the leaching process is complete, the solution is pumped into electrolytic tanks, where the copper is precipitated in the form of copper cathodes, just as the same process is carried on in copper refineries and the product is ready for market.

Another item of construction is the power plant at Tocopilla, on the Pacific Coast, eight-six miles from the mine. The power will be sent up over the mountains by high tension transmission wires, and oil from the California oil fields will be used as fuel.

Developments at the Chile property have gone along very smoothly, and one of the Messrs. Guggenheim said very recently that never in all their world wide mining experience had they ever had a project move along so wholly without friction and so free from delay as had the Chile.

Estimated Annual Earnings per Share

(with all bonds converted and 4,400,000 shares outstanding)

Copper metal	Treating 10,000 tons ore daily	Treating 30,000 tons ore daily
13c.	$2.00	$6.01
14c.	$2.29	$6.87
15c.	$2.58	$7.73

A New Wonder in the Copper World

Kennecott Copper

Alaska's Low-Cost Copper Producer

By C. S. BURTON

IT MAY be that Wall Street is yet to see itself as a center of copper interest. This distinction has been for so long given to Boston without question that it is somewhat hard to realize that the House of Morgan has become interested in copper mining. Yet Wall Street could not have had a better example of the manner in which the "Corner House" backs up its faith in the real things when once it sets its hand to the task, nor a better example of the time and money that are required to bring even a rich property to the point where it will begin to return its cost to investors.

Some twelve or 15 years ago, there began to come down from the far North stories of copper deposits of great richness. As nearly always happens in the exploitation of a new mining district, the most attractive tales were told by those who were peddling shares, and to some extent this created skepticism as to the worth of the district in the minds of those who had no way of getting the actual facts. In 1901, Mr. Stephen Birch, president of the Kennecott Copper Company, acquired the Bonanza mine in the Copper River district, about 180 miles northeast of Valdez. The surface outcrop on the ground showed ores running as high as 70 per cent. in copper with some silver values. The real question immediately became: "Now you've got it; what are you going to do with it?" That "180 miles from nowhere" was the obstacle. In 1906, five years later, the Bonanza was still a prospect, but it was an unusual one and held great promise, great enough to justify the formation of the Morgan-Guggenheim Syndicate, in which it has been generally understood the Kuhn-Loeb interests also had a share. With this backing the further development of the property was a matter of work, time and engineering skill. Machinery had to be installed at the mine and, to use the old mountain phrase, it is a region where "all outdoors stands on end"; in spite of the cost of moving materials, it was done, and the transportation system was completed and started operation. The Copper River Railroad is one of the most costly pieces of trackage in the world; probably it stands alone in the way of cost for a railroad line located outside of a large city. It has some 200 miles of line, completed in 1911, at a cost of about $22,000,000.

While the road was building, the mine had been making progress as well, and, as soon the cars could carry out the ore, shipments were begun to the Tacoma Smelter of the American Smelting & Refining Company. Within a few months the syndicate which had poured millions into mine and road began to realize some returns. Up to the time of the formation of the present company the Bonanza had returned $7,500,000 to its owners, and had demonstrated possibilities greatly beyond the original estimates on the production of the mine.

To meet the enlarged situation, a consolidation was made of the Bonanza and its neighbor, the Jumbo, with the lower grade copper property on Latouche Island, the Beatson Copper Company, the new concern being known as the Kennecott Copper Corporation, with 1,120,000 shares of stock without par value. An issue of convertible bonds was made amounting to $10,000,000 against which 400,000 shares of stock was retained in the treasury, thus giving to the stock a theoretical par value of $25, the bonds being exchangeable for stock on the basis of forty shares of stock for each $1,000 bond, after June, 1917, up to maturity in 1925.

Kennecott is in a class by itself. It makes the cheapest copper of all the large producers. There are mines that turn out some copper as a by-product, but none other that can make 9,000,000 pounds per month with a cost under 5 cents per pound. Costs for one quarter of 1915 are given as 3.65 cents per pound; it may be taken for granted that there are some precious metal values to be credited to copper costs account, but the profits on a production of 100,000,000 pounds per year on the present metal market are so staggering as to seem incredible.

June production was 9,000,000 pounds; costs for the first quarter of the year were 3.65, but say 4 cents, if sold at 18 cents, the month's profit would be $1,260,000, or at the rate of $15,120,000 per year. If one takes the stock at its present market value and figures upon all of the bonds as converted, this would mean about 48 per cent. return. Or, if bond interest were deducted from such returns there would be available more than $20 per share for the 720,000 shares outstanding. It is not to be expected that any such production can be maintained throughout the year, nor are there any copper producers who desire a continuance of the present market if it has to be based upon present causes; but, taking a saner basis as an average, a production of 5,000,000 pounds per month, and a cost of 5½ cents, which will be the cheapest copper made, will show returns of $7 per share with the metal at 15 cents, and this would be 20 per cent. upon the present market price.

The world is going to use all the copper that can be produced. From Alaska to Chile the great backbone of the Western hemisphere is turning out a flood of red metal. It will all be needed. The Kennecott is said to have six years of ore in sight now, tremendous reserves for a deep level mine. The war makes for uncertainty, but copper producers are just as sanguine as to the world needs in peace as in war, and if they are correct, as they have an almost uncanny habit of being, Kennecott is one of the bargains among coppers. And whether they be right or wrong, Kennecott can keep on making profits when producers of 10-cent metal are forced to curtail output. Copper would go up 10 cents and Kennecott would still have more than a normal profit for the ordinary mine.

Production and Earnings

The production of the Bonanza mine since 1911 has been as follows, according to reports furnished by President Stephen Birch:

	Production	Cost	Average Price	Net Profit
1911	22,854,000	4.19c.	12.03c.	$1,754,569
1912	24,319,000	4.43c.	16.19c.	2,766,238
1913	14,621,834	5.48c.	15.15c.	1,636,579
1914	13,988,273	5.78c.	13.54c.	1,250,000

THE time to buy a mining stock is when it is an assured prospect, and the time to sell is when the dividends are at their height. Such points may be judged with reasonable precision upon careful study and investigation.

Mining Inquiries

Diversify Purchases

J. W. M.—Speaking generally of one of the best speculative moves you could make now is to buy into the copper stocks. There seems to be every indication that they will have a further advance. On the Boston market you might take up a little Butte & Superior (Zinc) and Shattuck-Arizona. On the New York market, Chino, Inspiration and Anaconda. For speculative purposes the coppers seem to offer the best opportunities for profit for the coming months, although no doubt many an industrial will provide a field for operations. They, however, have had such a rise, it is most difficult to mention any with any reasonable degree of satisfaction. Whatever you do, spread your purchases over as many stocks as possible. This principle of diversification is one of the first to observe.

Stewart

H. T., Penn.—We have advised several inquirers that to the best of our knowledge derived from trustworthy sources, the ore in the Stewart mine would not last a great while. In spite of such information this stock stays strong, has large public interest and pays dividends. We conclude that the public are buying without careful and critical study and that the stock is being kept alive in the markets through much artificiality.

To read the circulars from some irresponsible houses you would think this is a bonanza. We prefer to be very conservative.

C. & A.—Utah—Braden

S. A. K., Wisc.—Calumet & Arizona is in the hands of one of the best managements in the country. It is developing what is supposed to be an enormous low grade milling copper in the New Cornelia. It will probably acquire the Shattuck-Arizona in course of time. Utah is good—nothing better—but is selling on a strictly investment basis. Among the lower priced coppers with attractive speculative possibilities, Braden is one of the best.

Kerr Lake

J. K.—Kerr Lake is a silver producer in the Cobalt region, Canada, and there is nothing in the abnormal demands created by the war to affect silver in the same way that copper and lead have been moved up. Kerr Lake is probably worth all of its present market price on its ore reserves. It is not considered to have any specially attractive speculative features now.

Guggenheim Exploration

M. M. S., Penna.—We would advise you to hold your stock in the Guggenheim Exploration Co. The company is making more money in the way of additional dividends received on the stocks it holds, and may make even more by still further dividends. The time is not propitious to sell the stock. The company's assets are mostly all copper stocks, and these copper stocks are among the strongest in the market because copper is very high in price, and the outlook is for big business in the future.

Hold Coppers

L. A. A., Mass.—We do not think it is yet time to sell copper stocks. The full force and effect of high prices and tremendous volume of business has not yet shown in the income account, and dividends of many of these companies. To be sure, their prices have discounted much, but we think there is still a further advance in the majority of them.

Pacific Mines & Smelters

C. L., New Jersey.—Pacific Mines & Smelters hardly deserves serious consideration from an investment standpoint. There are so many things of known merit now offering that one could hardly justify any commitment in the stock.

Alaska Juneau

G. A. G., N. J.—Alaska Juneau is a property identical in its physical characteristics with Alaska Gold. It has a very large tonnage of low grade gold bearing ore, from which it will be possible to recover a net profit of about 60 cents to one dollar per ton. The property is now being equipped with a mill to handle twelve thousand tons per day. The management is the very best, being the same as that of the Alaska Treadwell on Douglas Island, just across the Gastineau Channel from the Juneau. Think the price you mention for the shares will be easily exceeded.

Federal Mining & Smelting

W. E. C., Ohio.—Federal Mining & Smelting preferred is a very doubtful proposition. Fundamentally its value is very uncertain, because the company for the past two years has had a deficit after paying something on the preferred stock. Lately, however, the company was said to be enjoying better business indirectly because of the war. Just how much better its business, no one except the management apparently knows. The stock had quite a burst about two months ago, and promptly fell back about as fast as it rose.

Since then it has been negligible in the market. There is so little to be learned about it and its position is so highly speculative, that it seems to us wise to leave it alone, so far as trading in it is concerned. If you care to take a large chance, however,

in averaging down, you might buy a little more and hope for the market to carry it back. The action of the stock a while ago was due mainly to speculative manipulations.

It is difficult to figure the value of a stock from the balance sheet. The book value does not count for so much in the long run. It is the earning power that almost completely determines the value and position of the stock. In this case it is usually poor. Just now they may be doing a little more business, but how long it will last is the question.

Mining Digest

Amalgamated.—Stock of this company will be stricken from the trading on July 31, noon, as the company will then be wound up and Anaconda will take its place.

Alaska Gold Mines.—Dividends expected to be paid in July, 1916. Expected original estimates of 75c. net profit per ton will be considerably exceeded.

Allouez. — Production in May 801,000 pounds, but in June production increased 50,000 pounds. Expected to produce 1,000,000 pounds in July.

Amer. Zinc, Lead & Smelt.—Dividends on the common suggested in the form of preferred stock. Tentative suggestion made that an equivalent of 5% on the common be paid in preferred. No official statement on the matter, but it is believed in about a month something like this will be done.

Anaconda.—Extending its activities beyond the United States. Through the Andes Exploration Co. vast South American interests will be developed. Doing a tremendous business owing to the great demand for copper.

Arizona Commercial.—Production running about 400,000 pounds of copper per month and on present prices earnings are about $30,000 per month.

Braden.—Production of 2,542,000 pounds in July bring the total output for the year up to 15,238,000 pounds, against 12,451,000 pounds in the corresponding period of 1914.

Butte & Superior.—Dividend of $5 per share expected at the next distribution payable on September 30. Predicted that the July earnings alone will show $4 per share earned.

Chile.—Production began May 18 and it is expected within a few months it will be running its 10,000 ton plant at full capacity. On preliminary tests the company will be producing at the rate of approximately 125,000,000 pounds per annum.

Chino.—Production running at the rate of 75,000,000 pounds per annum, a high record. Earning at the rate of approximately $11 per share.

Copper Range.—Resumption of dividends expected before a great while. All its subsidiaries are doing a splendid business and earning large profits.

East Butte.—Producing at the rate of more than 20,000,000 pounds per annum. Ore from all parts of the mine better than ever. Output for June was 1,500,000 pounds.

Greene-Cananea.—Operations to be resumed in September. By that time Co. hopes to have brought operations up to normal.

Goldfield Consolidated.—Net earnings for June estimated $141,000, as against $160,000 in May.

Inspiration.—Whole property is now producing. The last of the company's low grade porphyry mines was started June 29. With the entire plant in commission, output based on 14,000 tons per day should reach 120,000,000 pounds per annum.

Kennecott Copper.—Production for June 9,000,000 pounds and earnings over $1,300,000, or equal to $1.16 per share, which is at the rate of $14 per share per annum. Expected the stock will be listed on the New York Stock Exchange shortly.

Magma Copper.—Stock traded in on the New York Curb first time during week of July 9. Mine is in Arizona and is of the vein order. Net profits for 1915 expected to reach $750,000.

Miami.—Production this year expected to run 40,000,000 pounds, against 33,000,000 pounds last year. 1916 yield expected to be up to 50,000,000 pounds. On 45,000,000 pounds production at 20c. per pound Co. should earn close to $7 per share.

Shannon.—Earnings were about $65,000 in June, compared with $59,000 in May. Production for May slightly over 1,000,000 pounds. Expected the Co. will again pay dividends before the end of the year.

Stewart Mining.—Further dividend of 25% paid to stockholders, making up to the end of July 55%. Management has under option a copper property on island off the Canadian west coast, but the matter is not yet near a close.

Utah Copper.—Operations running at 100% of capacity and production running at 168,000,000 pounds per year.

Wolverine Copper.—Net earnings for first eleven months of year ending June 30 were $300,000, equal to $5 per share. This amount is expected to be paid on the stock if the high price of copper holds.

Outlook for Oil Producers

Standard Oil Stocks

By E. D. POUCH

IT is always difficult to appeal to investors when prices are at a standstill. A certain number of them will buy on a declining market, and a great many—probably the majority—will buy on a rising market. With Standard Oil stocks extremely inactive, bull arguments fall flat, and the average reader is apt to claim that if 50 per cent. of these "good arguments" were true, the stocks should rise rapidly as a natural consequence.

A very well-informed oil merchant claims that in a general way the war has not hurt the oil industry. In a few words, he says the trouble has been overproduction of crude oil and a shortage of shipping facilities. The former has nothing to do with the war, while the latter is more or less involved with war conditions.

The turn in the crude oil market is apparently in sight, if we take the opinion of some of the largest Oklahoma producers, for the Cushing flood of oil has apparently run its course with salt water developing and a considerable falling off in production resulting. Recently there have been rumors of new "wild-catting," but such is not likely under the present conditions.

The situation certainly is well in hand today, compared to six months or a year ago, and there is every reason to hope for a bright immediate future in the crude oil department of the industry. The largest interests are storing crude oil as fast as they can build tanks, and it is not likely that they would take these steps if they expected a further considerable cut in the price of crude.

Regarding freight rates and shipping facilities, little can be said here. The oil companies which have been building ships, expect considerable relief from their new boats which are now about to be delivered to them. Very soon the largest companies will be able to show enormous tonnage owned in tank steamers.

The consumption of gasoline in the War Zone is, of course, enormous, and would not have been dreamt of a year ago. The domestic consumption for automobiles, both commercial and pleasure cars, has increased so fast that in some States as high as 50 per cent. increase in the number of licensed cars has been reported. It is said that Ohio shows one of the largest increases, indicating that the Middle West is not suffering, at least enough to cut out the use of automobiles. According to last year's registration of automobiles, there were somewhere around 1,880,000 cars licensed in this country, and it is estimated that 2,500,000 will be licensed this year. These figures suggest somewhat the growing consumption of gasoline right at the time of the largest of foreign wars.

What to expect after peace is declared, is a consumption of gasoline that will

Company	1914 High	1914 Low	About Bid	About Asked
Anglo-American Oil Co., Ltd.	18⅞	10¾	15½	16
Galena-Signal Oil Co.	196	162	146	148
The Prairie Oil & Gas Co.	620	345	308	312
The Prairie Pipe Line Co.	160	128	150	152
South Penn. Oil Co.	425	229	273	277
Standard Oil Co. (Cal.)	366	270	270	272
Standard Oil Co. (Ind.)	577	384	403	406
Standard Oil Co. (N. J.)	436	355	398	400
Standard Oil Co. (Ohio)	490	395	423	427
Vacuum Oil Co.	258	170	197	200

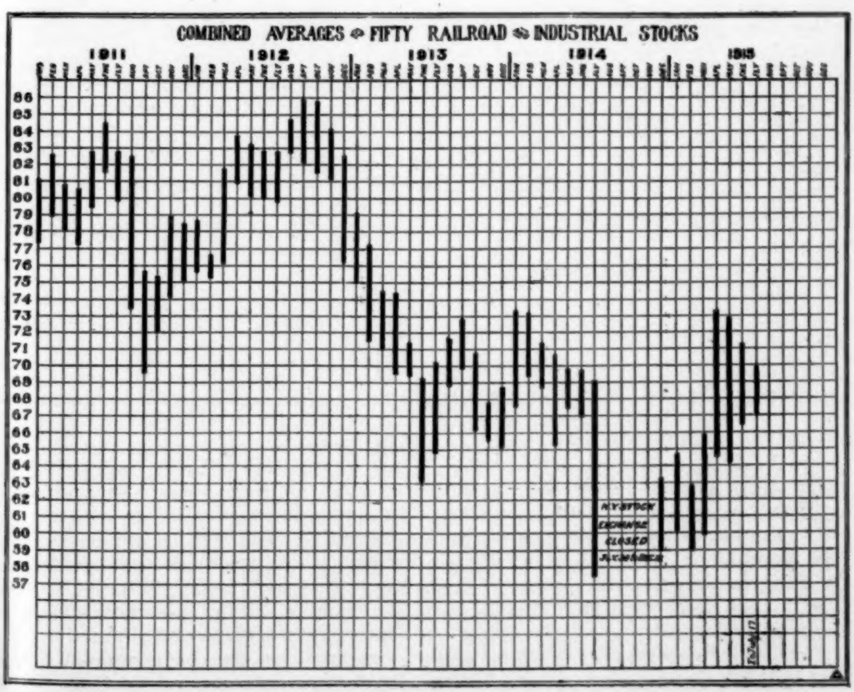
place a severe test on the crude oil supplies now being stored up. Take alone the question of destruction of horses (as a power proposition) in this foreign war, it is not only draining Europe, but drawing enormous quantities from this country. The transportation question in rural sections must change on account of this partial elimination of the horse, and the farm work and other commercial work must be accomplished by gasolene engines of some sort.

We can all see the future of the gas engine. Why not consider the profits to be made in the gasolene fuel business?

The oil industry has received an impetus that will earn, and has earned, wonderful dividends for its stock holders for some time. Take these oil companies known as "Subsidiaries of the Standard Oil Company," but which in some cases date farther back than the Standard Oil Company itself—for example, the Vacuum Oil Company, incorporated in 1866, the Galena Oil Company, organized in 1869, Standard Oil Company of Ohio, in 1870, etc. The majority of the capital stocks of the above have been long in the treasury of the Standard Oil Company of New Jersey, but since its dissolution in 1911, the situation in this respect has all been changed. With one single exception—namely, the Prairie Oil Company—there are no bonds ahead of these stocks, and the investor is practically in as strong a position as could be conceived with large surpluses back of his regular dividends and with the additional advantage of participating in extra dividends when business warrants it.

By comparison with former prices, the accompanying list will speak for itself.

Looking over this list, and reviewing the conditions in the oil industry and its future possibilities, it is hard not to believe that there are some very attractive investments offered at the present time, which will show a handsome profit.



TRADERS' DEPARTMENT

Practical Ways of Trading on Scale

SCALE TRADING

What It Is—Its Limitations

BY SCRIBNER BROWNE

HAVING had a long experience in the stock market, not entirely without some substantial results, I have been asked by the editor of the MAGAZINE OF WALL STREET to discuss the subject of scale trading in these columns, for the benefit of both the comparatively inexperienced and those who may have had considerable experience but still have never given the matter a careful scientific analysis.

There is no question that scale trading is a practical method of making profits. I would not say that I think it the best method, but there may be some who can use it better than any other method. It has, however, some limitations that the average trader hardly ever stops to think of, and to get good results it must be rightly applied. It is very far from being a method of eliminating judgment, and if an effort is made to apply it in that way the result will usually be that the operator's balance with his broker is also eliminated.

Some Limitations

To the novice scale trading makes its strongest appeal as a method of "catching the small fluctuations." He looks at the chart of Bethlehem Steel which appeared in the last issue of this magazine, for example, and sees a large number of small fluctuations. Why not catch these, he asks himself, by buying every two points down and selling every two points up? Well, something of the kind can be done, though Bethlehem would not be the best stock for the purpose; but there are some limitations which must be fully understood in advance.

First, it is necessary to select a stock that will not decline very much. From May 7 to May 14, Bethlehem Steel declined from 159 to 125. If the scale trader bought only 10 shares, the smallest lot traded in on margin, every two points down, he would have accumulated 160 shares on this reaction. A conservative margin, including the loss at the bottom price, would have been $8,000. It is doubtful if any responsible broker would have carried the stock for a less margin, and even if he would, the trader could not afford to take the chance of any less protection than that.

But in order to "catch the small fluctuations" the trader would have to take two points net profit on each transaction, otherwise he would not realize any profits from the numerous two-point rallies that might occur. Taking the entire movement, from the time Bethlehem sold at 159, May 7, until it returned to that price, June 8, the trader would obtain 37 two-point profits, or a profit of $740 less interest and taxes. In order to get this profit he had to assume a risk of $8,000, or ten times his profit.

Here, then, is the first limitation on scale-trading—that the amount of money risked is very much larger than the possible profit.

The above, however, assumes that the trader was right in his views on the market; that is, he was correct in his assumption that Bethlehem would recover from the reaction and again reach the highest price at which it had previously sold. Both experience and observation teach us that the trader cannot expect to be right every time. Suppose he had not been right, and that Bethlehem had declined further and continued to fluctuate over a lower level of prices.

In that case the trader could not have profited from these lower fluctuations without employing more than $8,000 capital; and until the price again returned to 159, his first $8,000 would be tied up and would be yielding no return. On the contrary, interest charges would be rapidly accumulating against his account.

This evidently constitutes another limitation to the scale-trading plan—that if the trader's judgment of the market is wrong he may find a large fraction of his capital tied up in an unproductive venture.

Does Not Catch All Fluctuations

Again, the trader is apt to assume that such a plan will enable him to catch all the fluctuations of 2¼ points or more. That is far from being true. For example, suppose he is buying at 140, 138, 136, etc., and taking profits at 142¼, 140¼, 138¼, etc. He cannot buy an odd lot at 136 until the market touches 135⅞, and he cannot get his two points net profit on the lot bought at 138 until the price touches 140⅜. Evidently, then, the price might go to 136 and rally to 140¼, afterwards declining below 136, without his having made a profit. Thus, although he is trading on a two-point scale, a rally of 4¼ points might occur without his getting any benefit from it.

He is not catching all the two-point fluctuations. Within the above range of 4¼ points the price might fluctuate many times without the trader getting any benefit.

A variation of this method which usually impresses the novice as a very bright discovery consists in operating on both the long and the short sides at the same time. This can be done on substantially the same capital as though the trader were working on one side only, because whenever the market is going down, so that a line is being accumulated on the long side, all trades on the short side are necessarily being closed out with two-point profits, and *vice versa* whenever the market advances.

Success with this double plan, however, requires that the market shall not have any permanent trend; otherwise, whichever way that trend might be the trader would find himelf building up a big line on which he would have no opportunity to realize.

It is rare indeed that a stock can be selected that has not a definite trend in one direction or the other over long periods of time. In fact, this is so difficult as to negative the idea of operating on both sides at once. The risk in endeavoring to do this would be out of all proportion to any profits likely to be realized.

Another difficulty in "catching the small fluctuations" is the large percentage of your profits that you have to pay the broker in commissions. Out of every 2¼ point profit your broker would get one-ninth—and the State and the U. S. Government take an additional rake-off of $4 on every hundred shares. Interest charges also become an important item when trades have to be carried for some time, as would frequently be the case in any systematic application of this plan.

If you attempt to get one-point fluctuations, your broker gets one-quarter of your profits, and the tax, of course, becomes all the more serious an item. This is prohibitive. I do not believe any systematic method of trading can be a permanent success after turning over more than 25 per cent. of the profits to the expense account.

If You Take a Loss

Another consideration that the trader cannot afford to overlook is the very serious consequences that will result if he is some time forced to take a loss. The success of scale trading must depend on being right nearly all the time on the general trend of the stock in which you are working.

For example, in the case of Bethlehem Steel mentioned above, if at a price of 125 the trader had concluded that he was wrong and had sold out, his loss would have been about $2,750, or just about four times his possible profit from the fluctuations if the market returned to the high point again. It would take him a long time to recoup such a loss, even if his nerve

were not permanently shattered so that he would not resume operations on the same plan.

In point of fact, this is what usually happens to the would-be scale trader. His loss may not be so heavy as in the above illustration, but the time comes when he sees the market going steadily against him and his loss in open trades running up to large figures, and he loses his nerve and closes out, or at any rate stops buying—and the success of this plan, in the long run, must depend on a persistent following of the method through thick and thin.

It may be objected that Bethlehem Steel does not afford a fair test of the method. That is to some extent true—or at least it would be true in practical operations, because Bethlehem is so high that it is perhaps dangerous to assume that the trend will still continue upward to even dizzier heights. But in this illustration the stock did in fact advance to new high prices, so that objection does not apply. Bethlehem has further to fall in case of a decline; but the real question would be, Has it further to fall in proportion to the number of its two-point fluctuations?

Nevertheless, it is true that a better stock than Bethlehem might be selected, and it is also true that the scale plan has some merits in spite of the difficulties here pointed out. I will take up this aspect of the matter in the next issue.

(*To be continued.*)

Technical and Miscellaneous Inquiries

Rights and Partial Payment Plan

W. S.—If you buy stocks on the partial payment plan, you are entitled to all rights that come to the stock. The fact that they are held in the broker's name makes no difference. He credits anything that comes to the stock to your account.

Execution of Odd Lots

Will you please inform me how an odd lot order is filled in an inactive stock?

For example, suppose I put in an order to buy 25 shares of Erie on the next quotation and there should be no sale in it for several days, then 100 shares sold at 24½; my order for 25 shares would be filled at 24⅝. I can't understand how it is possible that my order is always filled when there was only 100 shares sold for the day.

I understand that odd lots are not published, yet I can't see how an odd lot is always filled at ⅛ above the market when there is only one official quotation for the day. Where does this odd lot come from?—D. S.

Odd lots are bought from or sold to the "odd lot dealers," who do not act as brokers. As odd lots are not usually quoted on the tape, an odd lot order may be filed at a price which does not appear in the published quotations for the day.

Recently, however, the New York papers have begun the publication of the prices at which odd lots are sold, when these prices are outside the range for 100 share lots for the day.

You will find the execution of odd lot orders fully explained in the MAGAZINE OF WALL STREET for July, 1911. We still have some copies of this issue left, the price of which is 25 cents each postpaid.

Borrowing on Bank Stocks—Stockholders' Liability

Is it against banking laws to borrow money on bank stock for any purpose whatsoever, i. e., to hypothecate the bank stock? Is the case identical in regard to an officer of the bank or merely a stockholder?

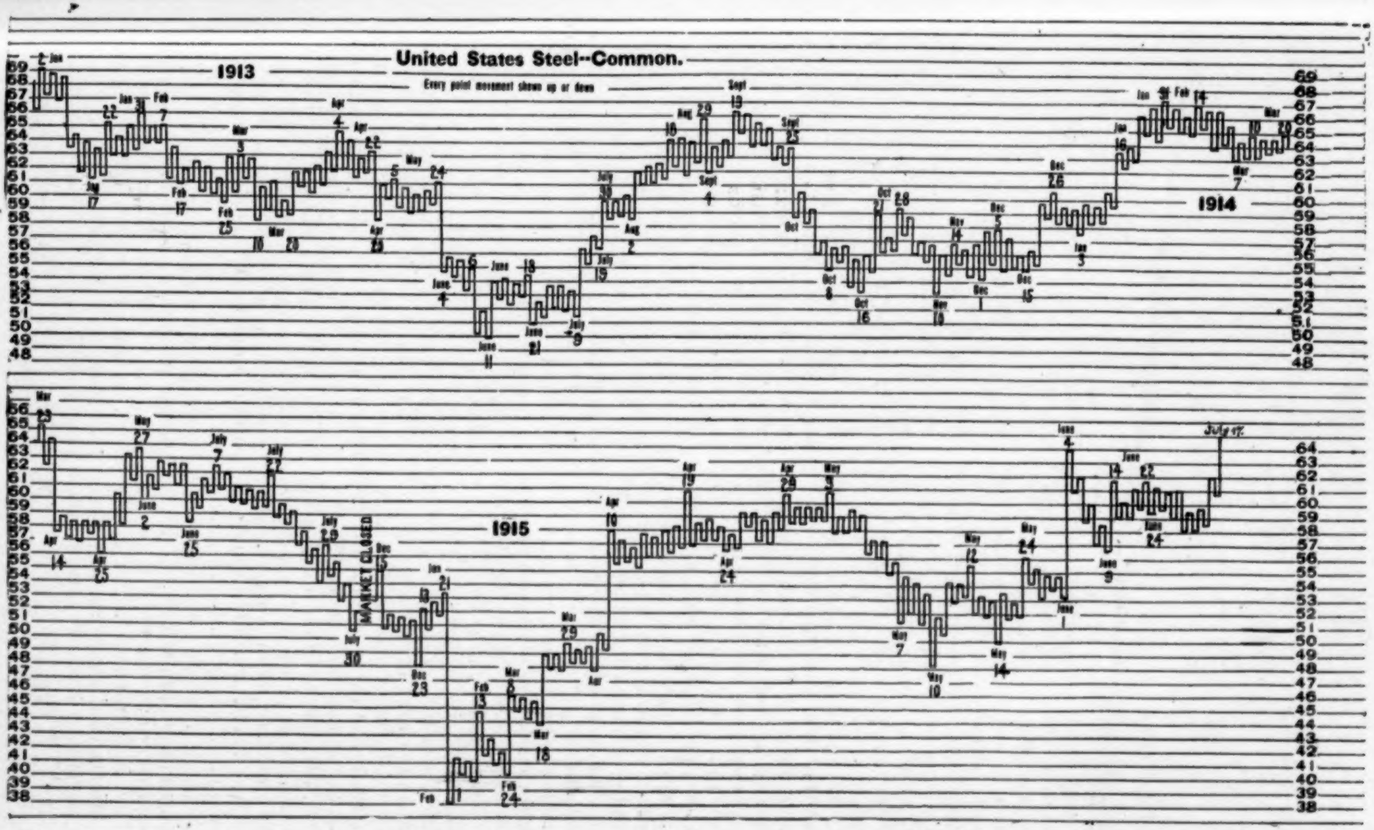
What is the liability of a bank-stockholder in case of the bank breaking?—B. H.

It is not against the law to borrow on bank stocks. It is illegal, however, for a national bank to lend on its own or other bank stocks. As regards routine business in the Street, a loan on bank stocks is generally obtained from a trust company.

A bank cannot, under the law, lend money to one of its own officers. It can, however, lend to a stockholder.

In New York State, the liability of a bank stockholder in case of failure of the bank is 200% of his stockholdings. For example: subscribing to a bank stock at par carries the possibility of an assessment of 100% in case of failure—100% having already been paid in. Subscribing to a bank stock at $200 a share—that is $100 for capital and $100 for surplus—relieves the holder of any further liability.

This is the law in New York State and adjoining States, but you will find different regulations throughout the middle West.



Note: It is planned to run in each issue a chart similar to the above on a leading stock. In the last issue appeared a chart showing Bethlehem Steel's movements for the past two years.

COTTON AND GRAIN

Is Spring Wheat Imperilled?

By P. S. KRECKER

SPECULATIVE markets thrive upon probabilities. What is likely to happen, interests the trader far more than what has happened. By the time the truth becomes known in its entirety, the market has usually discounted it and is looking ahead for some new stimulant. That may be said to apply to the wheat market especially at the moment. It had its big decline to below a dollar a bushel for September delivery, and its great wave of liquidation. It marked time for a while, seeking some incentive for a new movement, which naturally after such a slump would encounter least resistance if upward, and now it is finding the desired stimulus in a crop scare affecting the spring wheat region of the Northwest. At this writing the wheat market is agitated by the menace of black rust to that crop. Not that any damage has actually been done by that plague; on the contrary it is well understood in the trade that the damage done is infinitesimal.

What worries the wheat market is the potential rather than the actual harm. Nervous speculation is discounting what may happen. The fact that black rust is taking time by the forelock and is making its appearance two weeks ahead of its normal time accentuates nervousness over the situation in the spring wheat belt. Discovery of the presence of the plague goes to the credit of one of the perambulating traveling crop experts. He made it just about the time the government's experts were making public a weekly review of the conditions in the spring wheat belt which left little to be desired from the crop point of view. Had it been timed to offset the bearish effects of the government's report, it could not have appeared at a more opportune moment. It remains to be learned how accurate have been observations of this private expert and how much stress should be laid upon the information they convey, always bearing in mind that the ups and downs of the market depend upon rumors.

This comment is not made with any purpose of minimizing the possibilities of grave damage from black rust. This plague has a past as dark as its name, and has blasted many a promising yield. It is not necessary to hark back further than last summer for an instance of its serious results. Combined with drouth it wrought sad havoc, as will be seen by comparison of actual harvest of spring wheat with the promise held forth in the government's condition report of July 8, 1914. That report indicated a final yield of 275,000 bushels of spring, but the final government estimate on total outturn reduced the figures to 206,000,000 bushels. Should proportionate deterioration occur to spring wheat this season, the promised 295,000,000 bushels indicated in the government's latest crop report might easily be cut down to close to 200,000,000 bushels.

Sensitiveness of the future contract market to the reports of black rust is based in part on the poor harvest period winter wheat has had. In a previous article it was pointed out that the fulfillment of the government's promise of a billion-bushel wheat crop (the actual figures of the last government's report were 963,000,000 bushels combined winter and spring wheat yield) hinges on the spring wheat harvest. Indicated total production of winter wheat on July 1 was 668,000,000 bushels compared with the final yield last year of 684,990,000 bushels, so that even should every bushel be harvested that was promised on July 1, the harvest would still fall short of last season's. But it is practically certain that there will be considerably less winter wheat available this year than last be-

cause of the excessive rainfall during harvest time, which has not only delayed cutting and threshing seriously but has caused destruction to ripened grain standing in the fields. The exact extent of this damage is not known. It is estimated by the *Modern Miller* that 20 per cent. of ripened grain is still standing uncut in the wet fields. Assuming that rust and other damage to spring wheat prove as destructive as last year, the promise of a yield of 295,000,000 bushels might easily shrink to an actual harvest of 200,000,000. Assuming further the possibility of a loss of approximately 70,000,000 bushels to the winter wheat crop, and the final combined harvest would dwindle from 963,000,000 bushels promised on July 1 to 800,000,000 bushels compared with last year's all wheat crop of 891,000,000 bushels. It is upon such potentialities that the recent sharp rise in wheat is predicated.

There have been contributory factors making for a strong technical position in the future market. The wet season and delayed harvest, together with the farmer's indisposition to market his wheat at a low price when his imagination has been inflated with last spring's fancy prices have combined to retard the movement of wheat to the primary markets to an unwonted degree. Receipts are arriving in only about 30 per cent. of their normal volume. Meanwhile the visible supply has been dwindling steadily until at present writing it is estimated not to exceed 7,100,000 bushels, compared with more than 15,000,000 last year, nearly 30,000,000 in 1913 and more than 20,000,000 three years ago. Fortunately export demand has continued exceedingly moderate. But for that fact an exceedingly acute situation might have arisen this month. As it is, the danger exists of insufficient supplies to satisfy contract and cash obligations. Offerings of wheat continue small and cash premiums are soaring to extraordinary heights.

The international prospect remains more or less obscure. With the exception of France, there has been virtually no demand for export purposes. Europe appears to be prepared to wait until our wheat presses more heavily upon the market, confident that there will be plenty when all is harvested. Consequently foreign demand is still far behind last year's. Prices are steadily maintained in foreign markets because there is no pressure on those markets. Australia, which last year had exported 52,000,000 bushels from January 1 to the first of July, has shipped out none so far this year, but is buying wheat instead. India's supply for export is sufficient, but actual shipments are running behind because of scarcity of tonnage. Argentine has suffered from the same handicap. To what extent the same disability will affect the United States when the export movement really begins remains to be seen, but there is no doubt but that it is a factor to be reckoned with.

Hints for Investors

Buy bonds as quickly as possible when you see a period of very easy money ahead because the cheapness of money has an irresistible tendency to pull up the price of bonds. Vice versa when you see money tightening the opposite operation should be made.

The heavier the margin of safety a bond has the less critical need the investor be about its position and the fluctuation of this margin. Where the margin is narrow and fluctuates greatly it is quite essential to study the fine points of its security.

Awaiting Cotton Crop Scares

By C. T. REVERE

JUST now the cotton market is running on even keel and prepared for developments either favorable or unfavorable to prices. There was a decline of 110 points from July 1 to July 10. This practically cleaned out the floating long interest and created a swollen bear account. Within a week prices had rallied about 70 points and the over-confident shorts were forced to cover. It will require something new in the way of crop or international political developments to give the market a fresh tendency.

Bulls feel that with the decline which has carried prices down to a level of approximately 9 cents for October, which means something less than 8 cents for cotton in the South, prices have reached an investment buying basis. On the other hand, bears predict that with favorable weather during August and with a new crop coming to market, still lower prices may be seen when the weight of the bales is felt.

At the moment, however, veteran bears are conservative. Some attention must be paid to the price. With a crop scare during the latter part of the summer psychology will be more prominent in imparting tendency than fundamental factors, which can be carefully reasoned out.

For instance, it is recognized that the plant is full of sap, indifferently rooted and poorly prepared to withstand heat and dry weather. Rains have been frequent in North Texas, Oklahoma, Arkansas and the states east of the Mississippi River. Throughout the Atlantic States the plant is green and luxuriant, giving perhaps a false idea of the fruit it will produce.

A sudden turn to dry weather with temperatures around or above 100 degrees, if continued for a week or so would cause a good deal of shedding and lay the basis for innumerable complaints. The market probably would advance sharply. Almost any prediction as to the size of the crop might pass muster with proper emphasis laid upon the reduction of 41 per cent. in the quantity of fertilizer, as reported by the Department of Agriculture, to say nothing of the poor quality of the plant food.

After the scare is over it may be seen that a good deal of damage has been done, but in spite of such injury the outlook is still for a production of at least 12,000,000 bales. With the element of panic eliminated and the new crop weighing upon the market, pessimists may gain the upper hand and convince the rank and file that such a yield is sufficient for the world's needs. Whether it will be enough or not depends largely upon the ability to export cotton freely to Europe as well as upon the purchasing power of the world in war times.

At any rate all but the over-confident bears feel that this is the time to go slow on the short side and bulls are showing considerable confidence by picking up cotton on declines in the hope that heat, drouth, weevil or some other form of crop damage may bring about a rise that will enable them to unload their holdings with a profit.